UNITED
NATIONS

E

Economic and Social Council

Distr.
GENERAL

E/C.10/1993/11
17 March 1993

ORIGINAL: ENGLISH

COMMISSION ON TRANSNATIONAL CORPORATIONS
Nineteenth session
5-15 April 1993
Item 7 of the provisional agenda*

ACTIVITIES OF THE TRANSNATIONAL CORPORATIONS AND MANAGEMENT DIVISION AND ITS JOINT UNITS

The universe of transnational corporations

Report of the Secretary-General

SUMMARY

The universe of transnational corporations, comprising parent corporations and their affiliates world wide, is large, diverse and expanding. Parent transnational corporations, the majority of which are located in developed countries, include companies of varying size, but are characterized by considerable concentration in terms of ownership and control over assets abroad. Foreign affiliates are spread more evenly between developed and developing countries, although their size and investment activities in developing countries are much smaller than those in developed countries. There are differences in the sectoral distribution and the degree of transnationalization of corporations from different home countries. Those differences are also reflected in the distribution and transnationalization of the largest 100 transnational corporations. The importance of transnational corporations as global market operators and the concentration of their international production activities, are the basis for the emerging international production system.

* E/C.10/1993/1.

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INTRODUCTION

1. At its eighteenth session, the Commission on Transnational Corporations requested that a report on information activities be prepared for consideration at its nineteenth session. While previous reports on the subject have focused mainly on efforts to establish an information system on transnational corporations, this report utilizes some of the results of those efforts to outline the dimensions and some of the characteristics of the universe of transnational corporations. The present report complements the analysis of the reports before the Commission on trends in foreign direct investment (E/C.10/1993/2); the growth of foreign direct investment in the 1980s: trend or bulge (E/C.10/1993/3); and the emergence of an integrated international production system (E/C.10/1993/4).

2. The universe of transnational enterprises is large, diverse and expanding. It comprises hundreds of large corporations and thousands of smaller enterprises that, taken together, span the globe across all major sectors of economic activity. While the great majority of transnational corporations originates in developed countries, during the 1980s a growing number of firms headquartered in developing countries have also become part of the universe of transnational corporations.

3. Nevertheless, the universe of transnational corporations is characterized by a high degree of concentration: large proportion of transnational corporations originate in a few home countries and the majority of foreign affiliates are located in a relatively small number of host countries. Moreover, the universe is highly concentrated in terms of the share of foreign assets controlled by the largest firms, although the role of small- and medium-sized enterprises is significant and growing. Data on the operations of all parent companies based in selected countries, as well as on the largest 100 transnational corporations world wide, substantiate the high degree of concentration and illustrate the degree of transnationalization of enterprises.

I. THE UNIVERSE OF TRANSNATIONAL CORPORATIONS

4. According to estimates based largely on national official sources, the number of parent transnational corporations in the world at the beginning of the 1990s was over 35,000, controlling some 170,000 foreign affiliates (table 1). 1/

Table 1. Number of parent transnational corporations and foreign affiliates for developed countries and selected developing host countries, by area and country

(Number)

Area/economy	Parent corporations based in country	Foreign affiliates in country a/	Year
Developed countries	32 800	78 200	
of which:			
Australia	1 036	695	1992
Austria	679	2 221	1990
Belgium and Luxembourg	96	1 121	1978
Canada	1 308 b/	5 874	1991
Denmark	800	647 c/	1992
Finland	1 300	1 000	1992
France	2 056	6 870	1990
Germany	6 984	11 821	1990
Greece	...	798	1981
Iceland	14 d/	28	1991
Ireland	30	956	1992
Italy	263	1 438	1992
Japan	3 529 e/	3 150	1992
Netherlands	1 426	2 014	1992
New Zealand	201	1 078	1991
Norway	1 321	2 854 f/	1990
Portugal	...	3 068	1990
South Africa	...	1 884	1978
Spain	744	6 232 g/	1992
Sweden	3 529	2 400	1991
Switzerland	3 000	4 000	1985
Turkey	...	267	1989
United Kingdom of Great Britain and Northern Ireland	1 500 h/	2 900 i/	1991
United States of America	3 000 j/	14 900 k/	1990
Developing countries or areas l/	2 700	71 300	
of which:			
Brazil	566	7 110 c/	1992
China	379	15 966 f/	1989
Colombia	...	1 041	1987
Hong Kong	500 m/	2 828	1991
India	187	926 f/	1991
Indonesia	...	1 064	1988
Republic of Korea	1 049	3 671	1991
Mexico	...	8 953	1989
Oman	...	1 489	1989
Pakistan	57	560 g/	1988

/...

Area/economy	Parent corporations based in country	Foreign affiliates in country a/	Year
Philippines	...	1 952	1987
Saudi Arabia	...	1 461	1989
Singapore	...	10 709	1986
Taiwan, Province of China	...	5 733	1990
Yugoslavia	112	3 900	1991
Central and Eastern Europe n/	400	21 800	
of which:			
Bulgaria	26	114 b/	1991
Commonwealth of Independent States o/	68 e/	3 900	1992
Czechoslovakia (former)	26 e/	800	1992
Hungary	66 e/	2 400	1992
Poland	58 e/	3 800	1992
Romania	20 e/	6 900	1992
World	35 900	171 300	

Sources: United Nations, Department of Economic and Social Development, Transnational Corporations and Management Division, based on World Investment Directory, vol. I, Asia and the Pacific (United Nations publication, Sales No. E.92.II.A.11); World Investment Directory, vol. II, Central and Eastern Europe (United Nations publication, Sales No. E.93.II.A.1); World Investment Directory, vol. III, Developed Countries (United Nations publication, forthcoming); and national official and secondary sources.

(Footnotes on following page)

(Footnotes to table 1)

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a/ Represents the number of affiliates in the country shown.

b/ For 1990.

c/ For 1986.

d/ For 1989.

e/ For 1991.

f/ For 1988.

g/ For 1987.

h/ Represents a total of 24 bank parents in 1991, and about 1,500 non-bank, non-oil and non-insurance concerns with direct investments above £20 million in 1981.

i/ Represents a total of 2,419 manufacturing affiliates in 1990 and 518 bank affiliates in 1992.

j/ Represents a total of 2,183 non-bank parent corporations in 1990 and 89 bank parent corporations in 1989 with at least one foreign affiliate whose assets, sales or net income exceeded $3 million, and 723 non-bank and bank parent corporations in 1989 whose affiliate(s) had assets, sales and net income under $3 million.

k/ Represents a total of 10,142 non-bank affiliates in 1990 and 467 bank affiliates in 1987 whose assets, sales or net income exceeded $1 million, and 4,336 bank and non-bank affiliates in 1987 with assets, sales and net income under $1 million. Each affiliate represents a fully consolidated United States business enterprise, which may consist of a number of individual companies. In 1990, 10,142 non-bank affiliates represented 31,388 companies.

l/ Including the largest host countries and countries for which data on parent corporations could be obtained.

m/ For 1982.

n/ Data for affiliates are estimated using number of joint-venture registrations and available information on the number of registrations that are operational.

o/ Relates to the whole of the economic territory of the former USSR.

A. Parent transnational corporations

5. Parent transnational corporations are firms that control assets abroad. The number given above relates only to firms that have equity stakes in firms abroad of either more than 50 per cent (majority-owned foreign affiliates, or subsidiaries) or between 10 and 50 per cent (minority-owned foreign affiliates, or associates). The total does not therefore include the number of firms that control assets abroad through various non-equity ties (such as management contracts, transfer-of-technology contracts, subcontracting agreements and franchising) and that are linked with other firms through strategic alliances. On the other hand, it does include firms that are themselves affiliates of parent transnational corporations based in other countries. The share of parent companies that falls into this latter category varies by home country, ranging from less than one tenth to a third of the number of transnational corporations in the case of countries for which data are available (table 2). Overall, however, even if only ultimate parent companies - companies that are not affiliates of other transnational corporations - are counted, along with corporations with non-equity ties abroad, the world-wide total for transnational corporations would probably total at least equal above estimate. 2/ The existence of non-ultimate parent corporations, joint ventures and strategic and other forms of alliances, however, does raise the question of how to determine the nationality of transnational corporations and their affiliates and which Government retains actual control over them for legal and fiscal purposes.

6. About 90 per cent of transnational corporations originate in developed countries. Less than one per cent of parent corporations are based in the countries in transition in Central and Eastern Europe and the remainder are headquartered in developing countries. This distribution reflects decades of capital accumulation, economic growth and technological progress that have strengthened the competitive and firm-specific advantages of developed country transnational corporations. Among developing countries, those that have become headquarters to transnational corporations include primarily the newly industrializing and larger economies with the financial and technological capabilities for their firms to enter the world economy as direct investors.

7. Five countries - France, Germany, Japan, the Netherlands and the United States of America - are home to 53 per cent of parent transnational corporations based in developed countries. The five are also the largest foreign investors, accounting for nearly two thirds of the outward foreign-direct- investment stock of developed countries. The difference between the two distributions, that is, between their share of transnational corporations and their share of outward foreign direct investment, suggests that transnational corporations from those countries are, on average, larger foreign investors than those from other developed countries.

Table 2. Parent transnational corporations that are also affiliates of foreign transnational corporations

Country	Year	Number of parent transnational corporations	Of which, percentage that are foreign affiliates
Austria	1990	679	17.2
Canada	1990	1 308	33.3
Finland	1992	1 300	3.8
Germany	1990	6 984	8.1 a/
New Zealand	1990/91	201	28.9
Sweden	1991	3 529	11.8
United States of America	1990	2 183 b/	14.6

Sources: United Nations, Department of Economic and Social Development, Transnational Corporations and Management Division, based on unpublished data from national and other official sources.

a/ Of these, 481 are majority-owned by foreign transnational corporations.

b/ Figures represent only non-bank parents of non-bank foreign affiliates.

8. As to sectoral distribution, some three fifths of all parent transnational corporations headquartered in Japan and the United States are in the manufacturing sector, while two fifths originate in the services sector. This distribution remained almost stable throughout the 1980s, although, in the case of the United States, the number of parent firms in the primary and services sectors decreased slightly, while that in the manufacturing sector increased (table 3). This was largely due to the contraction of foreign activities by United States transnational banks following the international debt crisis, although United States foreign direct investment in finance and insurance taken as a whole increased, particularly in the second half of the 1980s. 3/ However, the number of United States manufacturing transnational corporations grew, with foreign expansion encouraged by the need for lower labour costs, greater access to growing markets and the need to conduct research and development on a global scale. In the case of Japan, the number of parent firms in the primary sector decreased as well, but that in the two other sectors increased. The more uniform expansion of Japanese transnational corporations was driven by, inter alia, a weakening dollar, which made exports from Japan less competitive in price.

Table 3. Distribution of parent transnational corporations from Japan and the United States, by sector

Sector	Japan a/		United States of America b/	
	1980	1990	1982	1987
All				
Number	1 298	1 616	2 245	2 272
Primary				
Number	60	47	166	111
Percentage	5	3	7	5
Manufacturing				
Number	800	994	1 215	1 312
Percentage	62	62	54	58
Services				
Number	438	575	864	849
Percentage	34	36	38	37

Sources: United Nations, Department of Economic and Social Development, Transnational Corporations and Management Division, based on Japan, Ministry of International Trade and Industry, Kaigai Toshi Tokei Soran, No. 1 (Tokyo, Toyo Hoki Shuppam, 1983); and Wagakuni Kigyo No Kaigai Jigyo Katsudo, No. 21 (Tokyo, Printing Bureau, Ministry of Finance, 1992); United States Department of Commerce, U.S. Direct Investment Abroad: 1982 Benchmark Survey Data (Washington, D.C., Government Printing Office, 1985); and U.S. Direct Investment Abroad: 1989 Benchmark Survey, Final Results (Washington, D.C., Government Printing Office, 1992).

a/ Date cover only transnational corporations, excluding those in banking and insurance which responded to a questionnaire on foreign direct investment and which continued their foreign operations.

b/ Only including transnational corporations that have an overseas affiliate whose assets, sales or income exceeded $3 million.

9. Trends with respect to the number of transnational corporations from major home countries differ, as illustrated by the experience of Germany, Japan and the United States of America. The number of United States parent corporations

decreased between the years 1982 and 1989 (table 4). This decline is mostly attributable to a decrease in the number of smaller transnational corporations with foreign affiliates whose assets, sales or income are below $3 million. This fall partly reflects the consolidation and restructuring of United States companies during the 1980s. While the number of United States parent companies diminished, their assets and employment both grew markedly during that period.

10. In contrast to the decrease in United States parent corporations, the number of transnational corporations based in Japan increased from 3,247 in 1980 to 3,529 in 1990. 4/ More dramatically, the number of transnational enterprises based in Germany increased from about 3,500 in 1976 to over 6,000 in the late 1980s. 5/ As discussed in the next section on affiliates, however, the extent of transnational corporation activity as measured by foreign direct investment and foreign assets increased for all three countries mentioned above.

Table 4. United States transnational corporations and their foreign affiliates, 1982 and 1989

Item	1982	1989
Number		
Parent firms	3 657	2 995
Large parent firms a/	2 245	2 272
Outward foreign affiliates	33 650	27 086
Large affiliates b/	18 274	18 899
Small affiliates	15 311	8 187
Employment		
Large parent firms (millions)	19.4	19.6
Average for large parent firms	8 641	8 627
Large affiliates (millions)	6.8	6.7
Average for large affiliates	372	354
Assets		
Large parent firms (billions of dollars)	3 754	6 616
Large affiliates (billions of dollars)	1 348	2 055
Small affiliates (billions of dollars)	16	6
Average for large affiliates (millions of dollars)	73.5	108.7
Average for small affiliates (millions of dollars)	1.0	0.7

Sources: United States Department of Commerce, U.S. Direct Investment Abroad: 1982 Benchmark Survey Data (Washington, D.C., Government Printing Office, 1985); and U.S. Direct Investment Abroad: 1989 Benchmark Survey, Final Results (Washington, D.C., Government Printing Office, 1992).

a/ Parents with affiliates whose assets, sales or income exceeded $3 million.

b/ Affiliates whose assets, sales or income exceeded $3 million.

B. Foreign affiliates

11. Foreign affiliates of transnational corporations world wide are estimated to number nearly 170,000. 6/ Again, the total number of affiliates does not include firms that are linked to parent corporations through various non-equity forms and strategic alliances. No data are available on these, but it is estimated that strategic alliances number in the thousands and subcontracting agreements alone in the hundreds of thousands. 7/

12. Developed countries are hosts of 46 per cent of the foreign affiliates of transnational corporations. Five countries - Canada, France, Germany, the United Kingdom of Great Britain and Northern Ireland and the United States of America - account for over two thirds of the inward foreign-direct-investment stock of developed countries, but host 54 per cent of all affiliates based in developed regions. This suggests that these affiliates are, on average, recipients of higher investment participation than affiliates in other developed countries.

13. However, unlike parent transnational corporations, which are overwhelmingly concentrated in developed countries, 42 per cent of foreign affiliates are located in developing host countries and 13 per cent in the economies in transition of Central and Eastern Europe. At the same time, these areas account for only 17 per cent of the world's inward foreign-direct-investment stock. A comparison of the shares in total affiliates with the shares of the respective regions in the world-wide stock of foreign direct investment suggests that the size of affiliates in the developing economies and the economies of Central and Eastern Europe is small relative to that of affiliates in the developed countries (table 5). In the case of the developing countries, this reflects the small size of many of their markets; in the case of the economies in transition, some of the affiliates represent initial investments, which, following further economic transformation in those countries, are likely to increase both in number and size.

14. Trends in the number of affiliates and the foreign direct investment, assets and employment in those affiliates differ somewhat among transnational corporations from major home countries, as illustrated by the experience of Germany and the United States of America. The number of foreign affiliates of United States transnational corporations decreased between 1982 and 1989 (table 4). However, while foreign direct investment and the assets of United States transnational corporations grew, employment diminished slightly. This suggests that United States transnational corporations bolstered their equity stakes in foreign affiliates, as well as the capital-intensity. In the case of Germany, the rapid increase in foreign-direct-investment stock in the 1980s was not matched by a corresponding growth in the assets and employment of foreign affiliates of German transnational corporations; assets increased by about 173 per cent and employment by only 34 per cent. 8/ This suggests that foreign direct investment from Germany during the period was partly used to increase equity and control in existing affiliates, rather than to expand production capacities.

Table 5. Average size of outward foreign affiliates of transnational corporations from selected countries, in terms of foreign direct investment per affiliate

Region/country	Year	Number of outward affiliates	Outward foreign direct investment stock (billions of dollars)	Average size per affiliate (millions of dollars)
Developed countries				
Germany	1990	19 352	155.1	8.0
Japan	1990	12 522	201.4	16.1
Sweden	1990/1991	6 900	50.7	7.3
United States of America	1990	27 086	382.0	14.1
Large affiliates	1990	18 899	380.0	20.1
Small affiliates	1990	8 187	2.0	0.24
Developing countries or areas				
Republic of Korea	1991	2 066	5.1	2.4
Singapore	1989	1 845	1.5	0.8
Taiwan, Province of China	1990	873	3.1	3.6

Source: United Nations, Department of Economic and Social Development, Transnational Corporations and Management Division, based on data from national and other official sources.

15. During the 1980s, the global spread of foreign affiliates has changed, affected by such events as regionalization, the impending creation of a single unified market in Europe and the growth of newly industrializing and other dynamic economies in Asia. This is illustrated by data for the United States of America and Germany. The geographic distribution of overseas operations of United States transnational corporations shifted towards Europe and the Asia-Pacific region (table 6). However, employment in United States affiliates abroad fell everywhere except in the Asia and Pacific region and Canada, pointing to the growing finance capital-intensity and technological sophistication of investments in the industrialized countries. 9/

Table 6. Distribution of United States affiliates abroad, by region and country, 1990 a/

Region/country	Number		Percentage of all affiliates	
	1982	1989	1982	1989
Developed countries	11 543	12 892	62.9	68.2
Canada	2 075	2 015	11.3	10.7
Europe	7 608	8 963	41.5	47.4
France	908	1 040	5.0	5.5
Germany	1 045	1 191	5.7	6.3
Italy	540	714	2.9	3.8
Netherlands	674	845	3.7	4.5
Switzerland	524	526	2.9	2.8
United Kingdom of Great Britain and Northern Ireland	1 944	2 258	10.6	11.9
Japan	704	865	3.8	4.6
Other developed countries				
Australia	752	776	4.1	4.1
New Zealand	117	150	0.6	0.8
South Africa	287	123	1.6	0.7
Developing countries	6 442	5 833	35.1	30.9
Africa	883	514	4.8	2.7
Asia and Pacific	1 490	1 912	8.1	10.1
Latin America	3 937	3 236	21.5	17.1
Middle East	419	294	2.3	1.6
International b/	354	174	1.9	0.9
Total	18 339	18 899	100.0	100.0

Sources: United States Department of Commerce, U.S. Direct Investment Abroad: 1982 Benchmark Survey Data (Washington, D.C., Government Printing Office, 1985); and U.S. Direct Investment Abroad: 1989 Benchmark Survey, Final Results (Washington, D.C., Government Printing Office, 1992).

a/ Including only affiliates whose assets, sales or income exceeded $3 million.

b/ Consisting of affiliates that have operations spanning more than one country and that are engaged in petroleum shipping, other water transportation or offshore oil and gas drilling.

16. The increased number of United States affiliates in Europe and the Asia and Pacific region during the 1980s contrasted with the trend in United States transnational corporation activities in the developing world as a whole, which decreased relative to the total number of affiliates (table 6). Both the number and the percentage of all United States transnational corporation affiliates located in Latin America and the Caribbean, Africa and the Middle East decreased. Moreover, the increase of United States transnational corporation affiliate employment in the newly industrializing countries of the Asia and Pacific region could not offset a small loss from 33 to 32 per cent in the share of developing countries in total United States transnational corporations' affiliate employment abroad. 10/

17. The pattern of overseas expansion of United States transnational corporations of different size classes has differed. Over half of the affiliate assets of small and medium-sized enterprises, defined as firms with fewer than 500 employees at headquarters, were located in the developed countries in 1982; that share rose to 57 per cent in 1989. At the same time, the share of affiliate assets of large United States transnational corporations located in the developed regions rose from 68 per cent to 79 per cent during the same period. 11/ This suggests that small and medium-sized enterprises may have a greater propensity to invest in and contribute to developing economies.

18. During the period of the 1980s, German transnational corporations, judging by the distribution of foreign affiliates, concentrated their activities in the European Community. The share of all German foreign affiliates that was located in the European Community, Asia and the economies in transition in Europe and Asia rose, while that of all other regions fell (table 7). The actual number of affiliates in Latin America and the Organization of Petroleum Exporting Countries decreased. This parallels the world-wide trend in the pattern of foreign direct investment from industrial countries, which has become increasingly concentrated in the Triad. The creation of the European Community single market by the end of 1992 has been a driving force in these developments.

19. Transnational corporation affiliates in services account for the largest shares of all foreign affiliates from Germany, Japan and the United States of America (table 8). The corresponding shares in foreign direct investment, however, are somewhat lower, except for Japan, where in 1989 outward foreign direct investment in services stood at 67 per cent as compared with a ratio of 55 per cent for foreign affiliates in services as a proportion of total foreign affiliates. 12/ The pattern of change in the sectoral distribution of foreign affiliates of transnational corporations was similar for Germany, Japan and the United States of America during the 1980s (table 8). The share of foreign affiliates in the services sector in total foreign affiliates expanded, while the shares of foreign affiliates in the primary and manufacturing sectors contracted. The shift towards services reflects the increasing importance of the services sector in the world economy and in outward foreign direct investment. Liberalization and deregulation of several service industries, such as banking and finance, the growth of demand for modern producer services and the impact of technological developments, especially on information technologies, are the main forces behind the increasing importance and internationalization of the sector.

Table 7. Distribution of foreign affiliates of German transnational corporations, by area and country, 1984 and 1990 a/

Region/country	Number		Share of all affiliates	
	1984	1990	1984	1990
Developed countries	12 412	16 747	84.7	86.5
European Community	5 357	8 780	36.5	45.4
Other Europe	3 766	3 879	25.7	20.0
Other countries	3 289	4 088	22.4	21.1
Developing countries b/	1 906	2 222	13.0	11.5
Africa	253	253	1.7	1.3
Latin America	1 089	1 027	7.4	5.3
Asia	564	942	3.8	4.9
Organization of Petroleum Exporting Countries	325	241	2.2	1.2
Economies in transition	14	142	0.1	0.7
Total	14 657	19 352	100.0	100.0

Source: Deutsche Bundesbank, Statistical Supplements to the Monthly Reports of the Deutsche Bundesbank, Series 3, Balance of payments statistics, No. 4, April 1992, pp. 4-13.

a/ Including only affiliates whose balance sheet total exceeds DM 500,000.

b/ Excluding members of the Organization of Petroleum Exporting Countries.

Table 8. Distribution of outward affiliates of major investing countries, by sector

Country	Year		All	Sectors		
				Primary	Manufacturing	Services
Germany a/	1984	Number	14 657	558	4 936	9 163
		Percentage	100	4	34	63
	1990	Number	19 352	422	5 729	13 201
		Percentage	100	2	30	68
Japan b/	1980	Number	3 567	194	1 587	1 786
		Percentage	100	5	44	50
	1990	Number	7 986	194	3 408	4 384
		Percentage	100	2	43	55
United States of America c/	1982	Number	18 339	2 084	7 005	9 250
		Percentage	100	11	38	50
	1989	Number	18 899	1 682	7 552	9 665
		Percentage	100	9	40	51

Sources: United Nations, Department of Economic and Social Development, Transnational Corporations and Management Division, based on Deutsche Bundesbank, Statistical Supplements to the Monthly Reports of the Deutsche Bundesbank, Series 3, Balance of payments statistics, No. 4, April 1992; Japan, Ministry of International Trade and Industry, Kaigai Toshi Tokei Soran, No. 1 (Tokyo, Toyo Hoki Shuppam, 1983); and Wagakuni Kigyo No Kaigai Jigyo Katsudo, No. 21 (Tokyo, Printing Bureau, Ministry of Finance, 1992); United States Department of Commerce, U.S. Direct Investment Abroad: 1982 Benchmark Survey Data (Washington, D.C., Government Printing Office, 1985); and U.S. Direct Investment Abroad: 1989 Benchmark Survey, Final Results (Washington, D.C., Government Printing Office, 1992).

a/ Including only affiliates whose balance sheet total exceeds DM 500,000.

b/ Including only affiliates of transnational corporations, excluding those in banking and insurance that responded to a questionnaire on foreign direct investment and that continued their foreign operations.

c/ Including only affiliates whose assets, sales or income exceeded $3 million.

20. Another important factor behind the high share of foreign services affiliates in the total number of affiliates abroad, for all three home countries mentioned above, is the strong tendency by industrial corporations to establish service affiliates overseas. The reason for this is primarily the need to supply foreign affiliates with the necessary producer services in such areas as information gathering, research and development and finance, in addition to the establishment of marketing, finance and trading affiliates. 13/ Thus, data on foreign affiliates by industry of parents may often underestimate the relative importance of the services sector in foreign direct investment.

II. CONCENTRATION OF TRANSNATIONAL CORPORATION ACTIVITY

21. While the universe of transnational corporations is large, it is actually highly concentrated in terms of control over foreign assets. In fact, roughly 1 per cent of parent transnational corporations in each country for which data are available account for about half of foreign-direct-investment stock or total affiliate assets (table 9). Larger transnational corporations have not only undertaken heavy foreign direct investments over time but also have the advantage of having started their foreign operations earlier. Small- and medium-sized enterprises are relatively new entrants in the arena of overseas operations.

22. Among firms based in major home countries, 32 transnational corporations from France, 20 from Germany and 22 from the United States of America accounted for 40 to 50 per cent of the total foreign affiliate assets or foreign-direct-investment stocks of their respective home countries in 1990, while only 10 firms from the Netherlands controlled 45 per cent of its outward investment stock. For German transnational corporations, concentration increased somewhat in the period 1976-1985 and stabilized during the remainder of the decade, with some 10 firms accounting for 35 per cent of the country's outward investment. This shows that, during that period, large corporations outpaced smaller ones in establishing global networks in sales and production. In the late 1980s, however, smaller transnational firms followed large corporations into the global marketplace, and as a result, concentration has apparently stabilized.

23. Despite a high degree of concentration, small and medium-sized enterprises account for a significant proportion of all transnational corporations and an increasing proportion of their affiliates. During the 1980s, small and medium-sized enterprises from the United States of America came to account for a larger share of the number of United States transnational corporations and a greater proportion of United States affiliates in foreign countries than before (table 10). In the case of Japan, the ratio of small and medium-sized parent transnational corporations to total parent transnational corporations, excluding, for both groups, transnational corporations in banking and insurance, decreased, but the proportion of new equity investments for which they account increased. Data for the mid-1970s and the mid-1980s also indicate that the share of small and medium-sized enterprises in total foreign-direct-investment outflow from Japan increased substantially; the average share in the mid-1980s was 15 per cent, while in the mid-1970s the figure was 6 per cent. 14/

Table 9. Concentration of ownership of foreign affiliate assets or foreign direct investment

Country	Year	Percentage of parent companies	Number of parent companies	Percentage of total foreign affiliate assets	Percentage of total FDI stock
Austria	1990	6	41	65 a/	..
		14	95	84 a/	..
		46	312	98 a/	..
Brazil	1991	2	11	..	35 b/
		5	28	..	52 b/
Finland	1991	6	80	..	90
France	1990	0.5	10	..	25
		1.6	32	..	50
		10.8	223	..	90
Germany c/	1990	0.1	10	32	35
		0.3	20	42	45
		0.7	50	69	58
	1985	0.5	27	..	50
	1976	0.9	31	..	50
Italy	1989	..	3 d/	51 e/	..
		..	5 d/	76 e/	..
		..	10 d/	84 e/	..
Netherlands	1990	1	10	..	45
New Zealand	1990-91	5	12	..	97 b/
Spain	1991	8	..	..	92
Sweden	1991	0.5	18	51	..
		1.5	51	75	..
United States of America f/	1990	1	22	45	..
		2	44	57	..
		5	109	75	..
		10	218	86	..
		20	437	94	..
		25	546	96	..
		50	1 091	99	..

Sources: United Nations, Department of Economic and Social Development, Transnational Corporations and Management Division, based on unpublished data from national and other official sources.

(Footnotes on following page)

(Footnotes to table 9)

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a/ Percentage of affiliate nominal capital.

b/ Share of foreign-direct-investment flows, not stock.

c/ Concentration ratios for transnational corporations with overseas affiliates whose balance sheet total exceeded DM 500,000.

d/ Number of financial or holding company parent groups.

e/ Refers to sales.

f/ Concentration ratios for non-bank parents of non-bank affiliates whose assets, sales or income exceeded $3 million.

Table 10. Small and medium-sized transnational corporations and their affiliates as a proportion of all transnational corporations from Japan and the United States of America

(Percentage)

Share of small and medium-sized transnational corporations in total for all transnational corporations in terms of:	Japan a/		United States of America b/	
	1980	1990	1982	1990
Number of parent firms c/	31.0	21.2	23.5	28.3
Number of affiliates	..	..	5.2	7.1
Assets of affiliates	..	..	1.7	4.0
Number of new equity investments d/	41.3	53.8 e/	..	..

Sources: United Nations, Department of Economic and Social Development, Transnational Corporations and Management Division, based on unpublished data from the United States Department of Commerce; Ministry of International Trade and Industry, Kaigai Toshi Tokei Soran, No. 1 (Tokyo, Toyo Hoki Shuppam, 1983); Waqakuni Kigyo No Kaigai Jigyo Katsudo, No. 21 (Tokyo, Printing Bureau, Ministry of Finance, 1992); Small and Medium Enterprise Agency, Chusho Kigyo Hakusho (White Paper on Small and Medium Enterprise), Tokyo, Ministry of Finance Printing Bureau, various issues.

a/ The data do not cover banking and insurance industries. The definition of small and medium-sized enterprises adopted by the Small and Medium Enterprise Agency of Japan is as follows: in wholesale trade, enterprises with capital less than 30 million yen and employment less than 100; in retail trade and other services, enterprises with capital less than 100 million yen and employment less than 50; and in other industries, enterprises with capital less than 100 million yen and employment less than 300.

b/ United States small and medium-sized transnational corporations are non-bank parents of non-bank affiliates with affiliate assets, sales or income greater than $3 million with fewer than 500 employees at the parent.

c/ Data on Japanese small and medium-sized parent corporations, obtained from the Ministry of International Trade and Industry, are defined only in terms of the capital criteria in footnote a.

d/ New equity investments refer to investments in initial capital acquisition (thus excluding additional investments by the same company in the same affiliate) and establishment of new subsidiaries. Loan investments, which are an important component of foreign direct investment, are also excluded.

e/ For 1989.

This may suggest that larger transnational corporations from Japan, with more extensive overseas operations, probably invest more in existing affiliates, while small and medium-sized enterprises tend to expand through the establishment of new affiliates.

III. THE LARGEST 100 TRANSNATIONAL CORPORATIONS

24. Since transnational corporation activity is heavily concentrated among a small number of companies, it is important to examine the nature and pattern of overseas operations of the largest transnational corporations. The largest 100 transnational corporations, excluding those in banking and finance, 15/ ranked by the size of their foreign assets (table 11), accounted for $3.2 trillion in global assets in 1990, of which an estimated $1.2 trillion was outside their respective home countries. Among the largest 100 transnational corporations, 53 are based in France, Germany, the Netherlands and the United States of America. These companies are estimated to account for roughly $280 billion of the world stock of outward investment in 1990 and about one third of the combined outward stocks of their countries. This suggests that, if other home countries have a similar concentration of foreign direct investment, the largest 100 corporations might account for about a third of the total outward stock of foreign direct investment.

25. Concentration of overseas activity, noted earlier for the universe of transnational corporations as a whole, also prevails within the group of the largest transnational corporations. The largest 10 transnational corporations, in 1990, controlled one quarter of total assets and a third of the foreign assets of the group (table 12). A similar pattern of concentration applies to the distribution of foreign and total sales of the group.

26. Four home countries account for almost two thirds of the transnational corporations in the top 100 (table 13). United States corporations account for a third of the number, as well as a third of the foreign assets, of the group (table 14). This position has resulted from an early lead in foreign direct investment after the Second World War, as well as rapid technical progress and a large and growing home market, which stimulated the development of firm-specific advantages that helped United States corporations compete abroad. About another third of the foreign assets of the top 100 is controlled by firms from France, Japan and the United Kingdom, which re-entered international production at various times as their economies recovered following the Second World War.

27. As for industrial distribution, 12 petroleum companies control over a quarter trillion dollars in foreign assets, or 21 per cent of the foreign assets of the top 100 (table 15). Firms in the petroleum industry have traditionally been large resource-seeking foreign investors. On the other hand, automotive manufacturers have expanded abroad in search of lower labour costs and to circumvent trade barriers. The petroleum, automotive, chemical and pharmaceutical industries together account for over half of the largest 100 transnational corporations' foreign assets.

Table 11. The largest 100 non-financial transnational corporations, ranked by foreign assets, 1990

Rank	Corporation	Country	Industry a/	Foreign assets	Total assets	Foreign sales	Total sales	Foreign employment	Total employment
				(billions of dollars)					
1	Royal Dutch Shell	United Kingdom/Netherlands	Petroleum refining	69.2b/	106.4	47.1b/	106.5	99 000	137 000
2	Ford	United States	Motor vehicles and parts	55.2	173.7	47.3	97.7	188 904	370 383
3	GM	United States	Motor vehicles and parts	52.6	180.2	37.3	122.0	251 130	761 000
4	Exxon	United States	Petroleum refining	51.6	87.7	90.5	105.5	59 000c/	104 000
5	IBM	United States	Computers	45.7	87.6	41.9	69.0	167 868	373 816
6	British Petroleum	United Kingdom	Petroleum refining	31.6	59.3	43.3	59.3	87 200	118 050
7	Nestle	Switzerland	Food	...d/	27.9	33.0	33.7	192 699	199 021
8	Asea Brown Boveri	Switzerland	Industrial and farm equipment	26.9	30.2	25.6e/	26.7	200 177	215 154
9	Philips Electronics	Netherlands	Electronics	23.3	30.6	28.8e/	30.8	217 149	272 800
10	Mobil	United States	Petroleum refining	22.3	41.7	44.3	57.8	27 593	67 300
11	Unilever	United Kingdom/Netherlands	Food	...f/	24.7	16.7b/	39.6	261 000	304 000
12	Fiat	Italy	Motor vehicles and parts	19.5	66.3	20.7e/	47.5	66 712	303 238
13	Siemens	Germany	Electronics	...d/	50.1	14.7e/	39.2	141 740	373 000
14	Volkswagen	Germany	Motor vehicles and parts	...d/	42.0	25.5e/	42.1	95 934	268 744
15	Elf Aquitaine	France	Petroleum refining	17.0	42.6	11.4e/	32.4	33 957	90 000
16	Mitsubishi	Japan	Trading	16.7	73.8	45.5	129.3	...	32 417
17	GE	United States	Electronics	16.5	153.9	8.3	57.7	62 580	298 000
18	Toyota	Japan	Motor vehicles and parts	14.6	55.5	26.3	64.5	11 326	96 849
19	Alcatel Alsthom	France	Electronics	15.3	38.2	13.0	26.6	112 966	205 500
20	Sony	Japan	Electronics	...d/	27.6	12.7	20.9	52 580	95 600
21	Mitsui	Japan	Trading	15.0	60.8	48.1	136.2	...	9 094
22	Matsushita Electric	Japan	Electronics	...d/	49.4	16.5	37.8	59 216	198 299
23	News Corporation	Australia	Publishing and printing	14.6	20.7	4.6	5.7	...	38 432
24	Bayer	Germany	Chemicals	14.2	25.4	20.3	25.9	80 000	171 000
25	B.A.T. Industries	United Kingdom	Tobacco	...d/	48.2	16.7	19.4	95 308	217 373
26	Ferruzzi/Montedison	Italy	Food	13.5	30.8	9.1	14.0	21 789	44 569
27	ENI	Italy	Petroleum refining	...d/	60.5	7.9	41.8	22 131	130 745
28	Rhone-Poulenc	France	Chemicals	13.1	21.4	11.8	15.4	50 525	91 571
29	Basf	Germany	Chemicals	...d/	24.6	19.1e/	29.0	30 783	134 056
30	Daimler-Benz	Germany	Motor vehicles and parts	...d/	48.8	30.3e/	53.1	74 154	376 785
31	Hoechst	Germany	Chemicals	...d/	23.8	13.1e/	27.9	82 169	172 890
32	Philip Morris	United States	Food	12.5	46.6	15.2	44.3	70 000c/	168 000
33	Du Pont	United States	Chemicals	11.9	38.1	17.4	40.0	36 219	143 961
34	Roche Holding	Switzerland	Pharmaceuticals	...d/	17.8	6.7e/	7.0	41 802	52 685
35	Michelin	France	Rubber and plastics	...d/	14.9	9.1	11.5	111 533	140 829
36	Dow Chemical	United States	Chemicals	10.9	24.0	10.3	19.8	28 612	62 080

Table 11 (continued)

Rank	Corporation	Country	Industry	Foreign assets	Total assets	Foreign sales	Total sales	Foreign employment	Total employment
				(billions of dollars)					
37	Amoco	United States	Petroleum refining	10.6	32.2	8.5	28.0	10 560	54 524
38	ICI	United Kingdom	Chemicals	10.5	20.8	16.6	23.1	77 939	132 100
39	Grand Metropolitan	United Kingdom	Food	10.4	17.7	9.0	14.8	...	138 149
40	Saint-Gobain	France	Building materials	9.9	17.6	7.8	12.7	69 651	104 987
41	Volvo	Sweden	Motor vehicles and parts	9.7	18.1	12.2[g]	14.1	20 346	68 800
42	Petrofina	Belgium	Petroleum refining	...[d]	12.3	5.7	17.4	...	23 800
43	Hanson	United Kingdom	Building materials	9.4	27.7	4.4	10.4	52 800	80 000
44	Electrolux	Sweden	Electronics	...[d]	11.7	11.9[g]	14.0	117 702	150 900
45	Total	France	Petroleum refining	...[d]	20.8	17.1	23.7	23 932	55 000
46	Generale Des Eaux	France	Construction	...[d]	27.9	5.5[g]	20.5	55 983	173 000
47	C.Itoh	Japan	Trading	8.6	47.8	19.1	146.6	3 620[g]	7 098
48	Nissan Motor	Japan	Motor vehicles and parts	...[d]	36.4	16.8	35.7	30 050	129 546
49	RTZ	United Kingdom	Mining and crude-oil production	8.4	9.3	7.3	9.3	58 153	73 612
50	Chevron	United States	Petroleum refining	8.4[d]	35.1	9.8	38.6	...	54 208
51	Xerox	United States	Scientific and photographic equipment	8.0	31.5	7.5	18.4	...	110 000
52	Stora	Sweden	Forestry products	...[d]	15.0	8.9[g]	11.1	36 818	69 700
53	Texaco	United States	Petroleum refining	7.8	26.0	18.0	40.9	...	39 199
54	Alcan Aluminium	Canada	Metal products	7.8	10.6	7.6	8.9	41 040	55 500
55	Pirelli	Italy	Rubber and plastics	...[d]	10.5	6.8	8.4	49 466	68 703
56	ITT	United States	Diversified services	7.5	49.0	6.5	20.6	...	114 000
57	Renault	France	Motor vehicles and parts	7.4	23.5	12.2	30.2	42 492	157 378
58	Thomson	France	Electronics	7.4	20.5	9.8[g]	13.9	55 225	105 460
59	Thomson Corporation	Canada	Publishing and printing	7.4	7.9	4.8	5.3	...	44 800
60	Pechiney	France	Metals	7.3	14.3	8.6	14.2	39 458	70 460
61	Solvay	Belgium	Chemicals	...[d]	8.9	7.2	7.7	36 578	45 671
62	Holderbank	Switzerland	Building materials	...[d]	7.4	3.4[g]	3.8	27 754	29 557
63	Sandoz	Switzerland	Pharmaceuticals	6.7	10.1	8.7[g]	9.0	42 449	52 640
64	Honda	Japan	Motor vehicles and parts	6.7	18.0	16.1	26.9	23 760[c]	79 200
65	Procter & Gamble	United States	Soaps, cosmetics	6.5	18.5	9.6	24.1	25 810[h]	88 800
66	Eastman Kodak	United States	Scientific and photographic equipment	6.4	24.1	5.8	18.9	53 780	134 450
67	Marubeni	Japan	Trading	6.3	54.9	38.1	131.0	3 500	9 905
68	Glaxo Holdings	United Kingdom	Pharmaceuticals	...[d]	7.6	4.4[g]	5.0	34 165	41 000
69	Olivetti	Italy	Computers	...[d]	12.5	4.8[g]	7.5	26 303	53 679
70	BHP	Australia	Metals	6.0	16.6	3.4	10.8	5 100	52 000

Table 11 (continued)

Rank	Corporation	Country	Industry	Foreign assets	Total assets	Foreign sales	Total sales	Foreign employment	Total employment
				(billions of dollars)					
71	Fletcher Challenge	New Zealand	Forestry products	5.9	10.4	4.9	7.3	...	40 000
72	Seagram	Canada	Beverages	5.7	10.2	4.6g/	4.8	9 328	17 600
73	Chrysler	United States	Motor vehicles and parts	5.7	46.4	8.5	30.6	30 784	124 000
74	Tenneco	United States	Industrial and farm equipment	5.6	19.0	4.6	14.5	...	92 000
75	Usinor-Sacilor	France	Metals	...d/	20.8	9.5g/	17.6	31 025	97 300
76	Norsk Hydro	Norway	Chemicals	5.5	12.0	5.9	9.8	16 745	33 042
77	Robert Bosch	Germany	Motor vehicles and parts	...d/	15.7	10.2bg/	20.0	62 087	179 636
78	Toshiba	Japan	Electronics	...d/	32.7	9.4	29.7	22 996	142 000
79	Akzo	Netherlands	Metal products	5.3	8.1	6.3	9.5	47 700	69 800
80	Smithkline Beecham	United Kingdom	Pharmaceuticals	5.2	7.5	7.4	8.5	46 413	57 300
81	Ciba - Geigy	Switzerland	Chemicals	5.2b/	20.5	7.9bg/	14.3	69 702	94 141
82	Bridgestone	Japan	Rubber and plastics	...d/	13.0	7.6	13.2	56 000	87 233
83	Alcoa	United States	Metals	5.1	11.4	4.3	10.7	27 391	63 700
84	Hewlett-Packard	United States	Computers	5.1	11.4	8.1	13.2	35 000i/	92 000
85	Digital Equipment	United States	Computers	5.1	11.7	7.3	12.9	...	124 000
86	SKF	Sweden	Metal products	...d/	5.5	4.5g/	4.7	48 075	53 995
87	Atlantic Richfield	United States	Petroleum refining	4.9	23.9	3.9	18.8	...	27 300
88	Nissho Iwai	Japan	Trading	...d/	32.1	28.1	107.8	...	7 392
89	GTE	United States	Telecommunications	4.9	33.8	3.0	18.4	35 000	177 000
90	Coca-Cola	United States	Beverages	4.8	9.3	6.3	10.2	...	24 000
91	Svenska Cellulosa	Sweden	Soaps and cosmetics	4.8	8.6	4.2g/	5.3	19 590	30 139
92	Peugeot	France	Motor vehicles and parts	4.8	22.6	15.8	29.5	31 820	159 100
93	3M	United States	Scientific and photographic equipment	4.7	11.1	6.2g/	13.0	39 000	89 601
94	United Technologies	United States	Aerospace	4.7	15.9	7.5	21.4	84 744	192 600
95	McDonald's	United States	Restaurants	4.6	10.7	2.8	6.6	...	177 000
96	Cable and Wireless	United Kingdom	Telecommunications	4.6	7.2	3.3	3.8	28 261	37 681
97	Lonrho	United Kingdom	Trading	...d/	7.0	5.6	9.3	127 369	142 159
98	Johnson & Johnson	United States	Pharmaceuticals	4.4	9.5	5.8	11.2	44 000c/	82 200
99	Veba	Germany	Trading	4.2	30.8	9.5g/	32.9	14 696	106 877
100	LVMH	France	Beverages	4.2	8.8	2.6	3.7	...	14 297

Sources: United Nations, Department of Economic and Social Development, Transnational Corporations and Management Division, based on company annual financial statements, Worldscope company accounts database, unpublished sources from companies, and John M. Stopford (ed.), Directory of Multinationals (New York, Macmillan, 1992). The Worldscope database uses standardized data definitions to adjust for differences in accounting terminology. Data for United States companies with fiscal year-end up to 10 February 1991, as well as for non-United States companies with fiscal year-end until 15 January 1991, are classified as 1990 data.

(Footnotes on following page)

(Footnotes to table 11)

a/ Industry classification of companies follows that in the Fortune Global 500 List in Fortune, 29 July 1991 and the Fortune Global Service 500 List in Fortune, 26 August 1991, except for GTE, ITT and McDonald's corporations. In the Fortune classification, companies are included in the industry or service that represents the greatest volume of their sales; industry groups are based on categories established by the United States Office of Management and Budget. Several companies, however, are highly diversified. These companies include 3M, Ferruzzi/Montedison, GE, Grand Metropolitan, Hanson, ITT, Sandoz, Tenneco, United Technologies and Veba.

b/ Excluding other European countries.

c/ For 1992.

d/ Data for foreign assets not available; ranking is according to foreign assets estimated by the Transnational Corporations and Management Division on the basis of the ratio of foreign to total employment, foreign to total fixed assets or other similar ratios.

e/ Including export sales which cannot be subtracted out.

f/ Although 38 per cent of UniLever assets are outside Europe, it is estimated that about 80 per cent of the corporation's business is outside the two home countries.

g/ For 1991.

h/ Employment in Europe only.

i/ For 1993.

Table 12. Transnationalization and concentration ratios for the largest 100 transnational corporations, by assets and foreign sales, 1990

Item	Share in top 100 Total assets	Share in top 100 Foreign assets a/	Share in top 100 Total sales	Share in top 100 Foreign sales	Share of foreign in total assets	Share of foreign in total sales
Top 10	26.1	33.6	23.0	30.3	49.1	61.9
Top 25	50.7	53.7	46.6	51.1	40.4	51.6
Top 50	72.4	75.8	69.8	71.9	40.0	48.5
Top 100	100.0	100.0	100.0	100.0	38.1	47.1
Value (billions of dollars)	3 166.0	1 207.7	3 076.1	1 449.7		

Source: Based on table 11.

a/ Estimates for foreign assets were used where data was missing.

Table 13. The largest transnational corporations from four major home countries and others, by industry, 1990

	Top four countries	United States of America	France	Japan	United Kingdom	Other
Petroleum refining	9	6	2	0	1	3
Chemicals and pharmaceuticals a/	8	4	1	0	3	9
Industrial and other equipment b/	8	8	0	0	0	2
Motor vehicles and parts	8	3	2	3	0	5
Electronics	6	1	2	3	0	3
Trading	6	0	0	5	1	1
Food, beverages and tobacco	5	2	1	0	2	4
Other services c/	5	3	1	0	1	2
Metals and mining d/	4	1	2	0	1	4
Other manufacturing e/	4	0	2	1	1	4
All industries	63	28	13	12	10	37

Source: Based on table 11.

a/ Including companies from the chemicals, pharmaceuticals, and soaps and cosmetics industries.

b/ Including companies from the aerospace, computer, industrial and farm equipment, and scientific and photographic equipment industries.

c/ Including companies from the construction, diversified services, publishing and printing, restaurants and telecommunications industries.

d/ Including companies from the metals, metal products, and mining and crude-oil production industries.

e/ Including companies from the building materials, forestry products, and rubber and plastics industries.

Table 14. The largest 100 transnational corporations, and their foreign and total assets, by home country, and gross national product for home countries, 1990

Home country (1)	Number of firms (2)	Sum of foreign assets a/ (3)	Sum of total assets (4)	Share of column in top hundred's total foreign assets (5)	Share of column in column 4 (6)	Gross national product (7)
		(billions of dollars)				(billions of dollars)
United States of America	28	393.9	1 263.7	32.6	31.2	5 392.2
France	13	121.1	294.0	10.0	41.2	1 190.8
Japan	12	121.7	501.9	10.1	24.3	2 942.9
United Kingdom of Great Britain and Northern Ireland	10	104.7	212.2	8.7	49.3	975.2
Germany	8	98.3	261.3	8.1	37.6	1 488.2
Switzerland	6	84.3	113.9	7.0	74.0	224.9
Italy	5	60.0	180.5	5.0	33.2	1 090.8
Sweden	5	36.5	58.9	3.0	62.0	228.1
Canada	3	20.9	28.7	1.7	72.7	570.2
United Kingdom/ Netherlands	2	89.0	131.2	7.4	67.9	..
Australia	2	20.6	37.3	1.7	55.2	296.3
Belgium	2	16.6	21.3	1.4	77.9	192.4
Netherlands	2	28.5	38.7	2.4	73.6	279.2
Norway	1	5.5	12.0	0.5	46.1	105.9
New Zealand	1	5.9	10.4	0.5	57.0	42.8
All countries	100	1 207.7	3 166.0	100.0	38.1	..

Sources: Based on table 11 and World Bank, World Development Report, 1992: Development and the Environment (New York, Oxford University Press, 1992).

a/ Estimates for foreign assets were used where the data was not available.

Table 15. The largest 100 hundred corporations, number of firms and assets, by industry, 1990

Industry (1)	Sum of number of firms (2)	Sum of foreign assets a/ (3)	Sum of total assets (4)	Share of column 3 in top hundred's total foreign assets (5)	Share of column 3 in column 4 (6)
		(billions of dollars)			
Chemicals and pharmaceuticals b/	17	149.6	299.1	12.4	50.0
Motor vehicles and parts	13	219.8	747.1	18.2	29.4
Petroleum refining	12	255.1	548.5	21.1	46.5
Industrial and other equipment c/	10	118.3	255.0	9.8	46.4
Electronics	9	125.8	414.8	10.4	30.3
Food, beverages and tobacco	9	112.1	224.1	9.3	50.0
Metals and mining d/	8	50.4	96.6	4.2	52.1
Trading	7	60.1	307.2	5.0	19.6
Other industrial e/	8	63.8	116.3	5.3	54.8
Other services f/	7	52.6	157.2	4.4	33.5
All industries	100	1 207.7	3 166.0	100.0	38.1

Source: Based on table 11.

a/ Estimates for foreign assets were used where the data were not available.

b/ Including companies from the chemicals, pharmaceuticals, and soaps and cosmetics industries.

c/ Including companies from the aerospace, computer, industrial and farm equipment, and scientific and photographic equipment industries.

d/ Including companies from the metals, metal products, and mining and crude-oil production industries.

e/ Ircluding companies from the building materials, forestry products, and rubber and plastics industries.

f/ Including companies from the construction, diversified services, publishing and printing, restaurants and telecommunications industries.

28. The largest transnational corporations from the United States of America and Europe are distributed among a wide range of industries (table 13). In contrast, the largest Japanese transnational corporations are concentrated in two manufacturing industries (the automotive and electronics industries), and general trading. Among other factors, trade frictions with major trading partners may explain the concentration of the largest Japanese manufacturing transnational corporations in automotive and electronic manufacturing. The five Japanese trading corporations, the sogo shosha, are considered the engines of the successful Japanese export drive after the Second World War.

IV. TRANSNATIONALIZATION DURING THE 1980s

29. The degree of transnationalization, which can be measured by the ratio of foreign activity (in terms of foreign assets, sales, employment or research and development) to total activity (measured by the corresponding totals), is an important index for measuring the relative importance of transnational corporations' foreign activities. The top 100 transnational corporations have, on average, 38 per cent of their assets located outside their home countries. Moreover, the larger the size of the transnational corporation in terms of foreign assets, the higher the degree of transnationalization (table 12).

30. The degree of transnationalization, however, varies by country. Enterprises from large home economies appear to have lower shares of assets in foreign locations. In the top 100, in 1990, transnational corporations from Germany, Italy and the United States of America had roughly a third of their assets overseas; transnational corporations from the United Kingdom and France had larger shares of assets overseas; and Japanese companies had under a quarter of their assets in foreign countries (table 14). On the other hand, large transnational corporations from smaller economies have larger shares of their assets in foreign countries, primarily because their small domestic markets do not allow the development of cost-saving economies of scale in production. Firms from Belgium, the Netherlands and Switzerland among the top 100 located about three quarters of their assets in foreign countries.

31. The degree of transnationalization also varies by industry (table 15). Among the industries to which many of the top 100 transnational corporations belong, the petroleum, chemical and pharmaceutical, electronics and industrial and other equipment industries have higher than average shares of foreign assets in total assets. The automotive industry, however, is below average in the degree of its transnationalization; automotive manufacturers have generally established themselves in large market economies, often their own, to achieve economies of scale and to be near key suppliers.

32. The extent to which transnational corporations from different home countries have spread their activities throughout the world during the 1980s has varied. The degree of transnationalization of United States transnational corporations appears to have decreased. The percentage ratio of affiliate assets, sales and employment in total assets, sales and employment all fell between the years 1982 and 1989 (table 16). This decline is largely attributable to a reduction in the ratios for United States transnational banks and wholesale trading. The sharp drop in the ratio for the banking industry is a result, to some extent, of the deteriorating financial position of

Table 16. Share of foreign affiliate assets, sales and employment in totals for United States transnational corporations, by industry of parent, 1982 and 1989 a/

(percentage)

Sector	Assets		Sales		Employment	
	1982	1989	1982	1989	1982	1989
All	26.4	23.7	29.4	29.1	26.0	25.6
Petroleum	32.8	38.7	38.7	43.1	29.3	32.2
Manufacturing	27.3	27.3	30.3	33.7	31.4	30.7
Wholesale trade	25.3	19.3	25.4	21.0	25.9	28.0
Banking	35.9	28.2	41.0	29.6	18.0	12.6
Finance	12.9	13.5	17.2	18.6	28.7	31.5
Other services	15.4	20.2	16.1	19.3	12.8	17.4
Other industries	7.5	8.1	11.3	12.1	12.4	14.7

Sources: United States Department of Commerce, U.S. Direct Investment Abroad: 1982 Benchmark Survey Data (Washington, D.C., Government Printing Office, 1985); and U.S. Direct Investment Abroad: 1989 Benchmark Survey, Final Results (Washington, D.C., Government Printing Office, 1992).

a/ Totals represent the respective sums of parent and affiliate assets, sales, employment and research and development expenditures.

transnational banks, which in turn was affected by overextension of real estate loans and loans to indebted developing countries in the 1980s. However, the degree of transnationalization of corporations in the petroleum industry increased markedly. Facing a decline in international oil prices in the 1980s, transnational corporations in the United States petroleum industry, which has a higher unit cost of extraction than petroleum extraction in other regions, expanded their foreign operations. The transnational content in terms of sales of United States manufacturing companies also increased, but only slightly.

33. The share of foreign affiliate assets of transnational corporations based in Germany grew at nearly the same rate as foreign-direct-investment stock during the 1980s, reaching about 30 per cent in total assets of all German companies in 1990 (table 17). 16/ The ratio of foreign affiliate employment to total domestic employment, however, grew at a relatively lower rate and reached 8 per cent of full domestic employment in 1990. The tendency of German transnational corporations to invest in industries with high capital intensity, as well as the restructuring of organizations typically observed in the late 1980s, may account for the slow growth of the affiliate-to-total-employment ratio. It remains to be seen if the degree of transnationalization of German firms will be affected by German unification and whether the process will divert the outward expansion of German corporations. 17/

34. Transnational corporations are increasing their degree of transnationalization not only in terms of assets, sales and employment, but also in terms of research-and-development activity. For example, the share of United States foreign affiliates in the research-and-development expenditures of their parents increased between 1982 and 1989 (table 18). In addition, majority-owned affiliates tend to account for a higher percentage share of total research-and-development expenditure by transnational corporations than all affiliates (table 18). This reflects the fact that parent firms exercise a greater control over their foreign affiliates. Available data on patents also generally indicates the rising importance of research and development in foreign locations. For example, between the early 1970s and mid-1980s, the share of patents filed in the United States of America by transnational corporations worldwide that are credited to research undertaken outside the home country of the parent company has increased in 7 out of 11 countries. 18/

Table 17. Transnationalization of German enterprises, 1980-1990

Year	Assets of foreign affiliates of German transnational corporations		Employment of foreign affiliates of German transnational corporations		Foreign direct investment as a share of assets of foreign affiliates of German transnational corporations (percentage)
	Amount (millions of DM)	Share in total assets of German non-bank companies a/ (percentage)	Amount (millions of DM)	Share in total employment in Germany (percentage)	
1980	551.9	16.1	1 743	6.4	15.3
1981	663.3	18.4	1 762	6.5	15.4
1982	714.1	19.0	1 690	6.3	15.3
1983	777.2	19.9	1 617	6.1	16.0
1984	897.8	22.0	1 697	6.4	16.2
1985	891.1	21.5	1 798	6.7	16.5
1986	906.5	21.0	1 788	6.6	16.7
1987	958.3	23.2	1 881	6.9	16.4
1988	1 164.1	26.8	1 974	7.2	15.9
1989	1 324.3	28.6	2 172	7.8	15.6
1990	1 507.2	29.6	2 328	8.2	15.4

Sources: Deutsche Bundesbank, Monthly Report of the Deutsche Bundesbank, various issues; and Statistische Bundesamt, Statistisches Jahrbuch 1991 (Wiesbaden, Statistische Bundesamt, 1991).

a/ Represents the share of the assets of non-bank foreign affiliates in the total assets of non-bank German enterprises.

Table 18. Share of research-and-development expenditures of foreign affiliates of United States transnational corporations, by type of affiliate and industry, 1982 and 1989

(Percentage)

Industry	Year	By United States majority-owned affiliates as a percentage of parent firm total	By all foreign affiliates as a percentage of total transnational corporations expenditures
All industries	1982	10.4	8.8
	1989	12.1	10.8
Manufacturing, total	1982	10.4	8.8
	1989	11.4	10.3
Chemical and allied products	1982	10.7	10.8
	1989	11.8	10.6
Machinery, except electrical	1982	4.1	5.2
	1989	6.0	5.7
Electrical and electronic	1982	10.1	3.3
	1989	15.2	13.2

Source: Organisation for Economic Cooperation and Development, Industrial Policy in OECD Countries: Annual Review 1992 (Paris, 1992), tables 62 and 63, p. 203, based on data from the United States Department of Commerce.

CONCLUSIONS

35. The universe of transnational corporations is large, diverse and growing. At the beginning of the 1990s, there were about 35,000 parent transnational corporations with some 170,000 affiliates covering all sectors and regions of the world economy. In addition transnational corporations, overwhelmingly based in developed countries, are also responsible for international production operations through hundreds of thousands of cooperative agreements, including technology agreements, strategic alliances and subcontracting, all of which, along with foreign-direct-investment activities, form the basis of the emerging international production system.

36. The extent of the international production networks, the degree of transnationalization and the geographic distribution of affiliates vary among parent transnational corporations based in different countries. Judging from the data for major home countries, however, there is considerable concentration of foreign activity among transnational corporations. Although thousands of small and medium-sized transnational corporations are an important part of the international production system, a relatively small number of large companies account for a significant share of transnational corporation activity as measured by foreign assets.

37. The importance of transnational corporations as market operators, especially in key industries, has implications for host countries and their policies, particularly in the light of the concentration and increasing globalization of transnational corporation activity. It suggests that a relatively small group of transnational corporations, responding to market signals, plays a major role in determining the flows of foreign direct investment and associated technology and the integration of a country within the international production system. One of the issues that have to be considered is how countries can ensure the efficient functioning of markets in order to participate in and benefit from the networks of international production and the flows of capital, goods, services and technology that are organized and managed by transnational corporations. National policies regarding development, trade and technology need to take into account the global nature of many industries, while a multilateral approach will be needed to avoid frictions arising from conflicting national approaches to economic management. Multilateral approaches will also be needed to encourage ways and means through which many developing economies in the danger of being marginalized, can be linked to the international production system.

Notes

1/ Although the data in table 1 provide a good picture of the number of companies involved in foreign-direct-investment activities and their spread, data limitations should be noted. Several countries do not report the number of transnational corporations or foreign affiliates, while others report only those with sales or assets above a minimum size, or exclude firms in certain industries. This would suggest that the number of parents and affiliates is an underestimate.

2/ It could be argued that a problem of double-counting would arise only if subsidiaries (majority-owned affiliates) of foreign enterprises were counted as parents originating in the host country. However, companies in which the equity held by foreign firms is more than 10 per cent but less than 50 per cent are also considered as affiliates of foreign transnational corporations. They could be considered as legitimate parent transnational corporations because the influence of foreign firms is not necessarily dominant and their accounts are not always consolidated with those of their ultimate parents.

3/ Based on data from the foreign-direct-investment database of the Transnational Corporations and Management Division.

4/ Japan, Ministry of International Trade and Industry, Kaigai Toshi Tokei Soran, No. 1 (Tokyo, Toyo Hoki Shuppan, 1983); and Wagakuni Kigyo No Kaigai Jigyo Katsudo, No. 21 (Tokyo, Printing Bureau, Ministry of Finance, 1992).

5/ In both 1976 and 1985, one third of the investors were individuals, sole proprietors and medium-sized enterprises. See Deutsche Bundesbank, Monthly Report of the Deutsche Bundesbank, 39 (March 1987), p. 26.

6/ This estimate is based on the number of inward foreign affiliates. The total of inward affiliates is a better estimate of the number of affiliates than the sum of outward affiliates, which tends to be an overestimate. For example, if a United States corporation holds a 30 per cent stake in a French company, the latter is counted as an outward foreign affiliate by the United States. If the French company holds a 40 per cent stake in a Brazilian company, then the latter is a direct affiliate of the French parent, as well as an indirect affiliate of the United States parent. In this case, the United States and France would report a total of three foreign affiliates of their own transnational corporations; however, France and Brazil together would report two inward affiliates, which is the actual number.

7/ See John H. Dunning, "The global economy, domestic governance strategies and transnational corporations: interactions and policy implications", Transnational Corporations (forthcoming issue). According to the MERIT-CATI Data Band in the Netherlands, the total number of cooperative agreements is estimated at about 10,000, involving some 3,500 different parent companies during the period of 1980 to 1989. See John Hagedoorn, "Catching up or falling behind: patterns in international inter-firm technology partnering", paper presented to the Workshops on Global Trends in Foreign Direct Investment and Strategies of Transnational Corporations organized by the Transnational Corporations and Management Division, Department of Economic and Social Development and the Centro de Estudos das Relacoes Economicas Internacionais, Universidade Estadual de Campinas (Sao Paulo, 3-6 November 1992) p. 22.

8/ John Rutter, "Recent trends in international direct investment" (United States Department of Commerce, August 1992); Deutsche Bundesbank, Monthly Report of the Deutsche Bundesbank, various issues; and Statistische Bundesamt, Statistisches Jahrbuch 1991 (Wiesbaden, Statistische Bundesamt, 1991). Outward foreign-direct-investment stock of Germany increased by 260 per cent in the 1980s.

9/ Based on figures in United States Department of Commerce, U.S. Direct Investment Abroad: 1982 Benchmark Survey Data (Washington, D.C., Government Printing Office, 1985); and U.S. Direct Investment Abroad: 1989 Benchmark Survey, Final Results (Washington, D.C., Government Printing Office, 1992).

10/ Ibid.

11/ Based on data obtained from United States Department of Commerce.

12/ World Investment Directory, vol. 3, Developed Countries (United Nations publication, forthcoming).

13/ See Foreign Direct Investment and Transnational Corporations in Services (United Nations publication, Sales No. E.89.II.A.1).

14/ Based on data from Japan's Ministry of International Trade and Industry. See Masataka Fujita, "Small and medium-sized enterprises in foreign direct investment", in P. Buckley and others, eds., Technology Transfer to Developing Countries by Small and Medium-sized Enterprises (London, Macmillan, forthcoming).

15/ Banking and other financial companies have been excluded from the ranking because their total and foreign assets are not comparable to those of manufacturing or other service companies.

16/ Note that the transnationalization ratio used for Germany differs from that for the United States; the denominator for Germany is the total of assets of all German companies, while that for the United States of America is the total of assets of United States transnational corporations only.

17/ Foreign-direct-investment outflows from Germany decreased from $28 billion in 1990 to $21 billion in 1991. See "Growth of foreign direct investment in the 1980s: trend or bulge?" (E/C.10/1993/3).

18/ World Investment Report 1992: Transnational Corporations as Engines of Growth (United Nations publication, Sales No. E.92.II.A.19).

UNITED
NATIONS

E

Economic and Social Council

Distr.
GENERAL

E/C.10/1993/12
26 March 1993

ORIGINAL: ENGLISH

COMMISSION ON TRANSNATIONAL CORPORATIONS
Nineteenth session
5-15 April 1993
Item 7 of the provisional agenda*

ACTIVITIES OF THE TRANSNATIONAL CORPORATIONS AND MANAGEMENT DIVISION AND ITS JOINT UNITS

Report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its eleventh session

SUMMARY

At its eleventh session, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, under agenda item 2, "Adoption of the agenda and other organizational matters", had a discussion on a number of issues, such as the size and membership of the Group, the financial arrangements for the participation of representatives and the appropriate structure and resources necessary for the Group to carry out its mandate. It adopted three relevant draft resolutions calling for action by the Commission on Transnational Corporations: "Enlargement of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting", "Financial arrangements for the annual session of the Group" and "Structure and resources to fulfil the mandate of the Group".

The Group also had a discussion on the special subject of accounting education and strengthening of the profession. The Group was particularly concerned that accountants and auditors were not being properly prepared to meet their global responsibilities. It considered nine reports of the Secretary-General which surveyed the adequacy of accounting education on country, regional and global levels. It discovered that the education gap was far more serious on a world-wide basis than had been recognized by the accounting profession.

* E/C.10/1993/1.

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There was consensus among the Group on the need to develop standards for a global qualification which would make the accounting profession equal around the world. While in many countries a high level of accountancy had been achieved, there was no common guaranteed level world wide. That lack posed problems for accountants from developing countries and countries in transition in that they were not accorded equal status with accountants from developed countries. The Group suggested that two new designations be established - that of United Nations registered accountant and (on a higher level) that of United Nations registered auditor. The experts called upon the International Federation of Accountants to focus on the problem and to develop global qualification standards for accountants and auditors that could be endorsed by the United Nations.

The Group also adopted two proposals, entitled "Cooperation with the International Federation of Accountants" and "Ad hoc consultation on a master plan", which are brought to the attention of the Commission.

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I. MATTERS CALLING FOR ACTION BY THE COMMISSION ON TRANSNATIONAL CORPORATIONS OR BROUGHT TO ITS ATTENTION

A. Draft resolutions recommended for adoption by the Commission

1. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting recommends to the Commission on Transnational Corporations the adoption of the following draft resolutions:

DRAFT RESOLUTION I

Enlargement of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting

The Commission on Transnational Corporations,

Recalling Economic and Social Council resolutions 1979/44 of 11 May 1979, 1982/67 of 27 October 1982 and 1991/56 of 26 July 1991, and resolution 1988/1 adopted by the Commission on Transnational Corporations at its fourteenth session, 1/

Recognizing the increasing importance of promoting the use of internationally accepted accounting principles,

Having considered the report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its eleventh session, 2/

Noting the growing number of countries interested in the work of the Group, particularly new States Members of the United Nations, many of them countries in transition,

Acting upon the recommendation of the Group at its eleventh session concerning the size and composition of its membership,

Requests the Economic and Social Council to increase the membership of the Group from thirty-four to fifty, and to allocate the seats according to the following pattern:

Thirteen members from African States;

Ten members from Asian States;

Six members from Eastern European States;

Seven members from Latin American and Caribbean States;

Fourteen members from Western European and other States.

DRAFT RESOLUTION II

Financial arrangements for the annual session of the Group

The Commission on Transnational Corporations,

Recognizing the increasing interest in the work of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting in the area of international accounting and reporting,

Concerned with the low incidence of expert representation from developing countries at the sessions of the Group, due in part to inadequate resources to finance the participation of such experts,

Convinced that the effective fulfilment of the mandate of the Group, in particular to serve as an international body for the consideration of issues of accounting and reporting in order to improve the availability and comparability of information disclosed by transnational corporations, requires the full and active participation of experts from all regions,

Noting that representatives need to have special expertise in the field of international accounting, in view of the complex and technical nature of the work of the Group,

Bearing in mind the arrangements on reimbursement of travel expenses that exist for certain United Nations bodies, pursuant to section XI of General Assembly resolution 43/217 of 21 December 1988,

Requests the General Assembly, in consultation with the Secretary-General, to consider granting financial assistance, within existing resources, to the least developed countries that are members of the Group, and, on an exceptional basis, to other developing countries that are members of the Group, at their request, to enable them to participate in the sessions of the Group.

DRAFT RESOLUTION III

Structure and resources to fulfil the mandate of the Group

The Commission on Transnational Corporations,

Recalling Economic and Social Council resolutions 1979/44 of 11 May 1979, 1982/67 of 27 October 1982 and 1991/56 of 26 July 1991,

Having examined the report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its eleventh session,

Taking note of the expanded mandate of the Group, in particular as it relates to technical cooperation, to meet the needs of developing countries and

countries in transition in the development of the accounting profession and standard-setting,

Calls upon the Secretary-General to ensure that the appropriate structure and resources are made available within the United Nations Secretariat so that the Group can effectively carry out its mandate on international accounting and reporting.

B. Resolution and decision of the Group brought to the attention of the Commission

2. The following resolution and decision are brought to the attention of the Commission on Transnational Corporations:

Resolution 11/1. Cooperation with the International Federation of Accountants

The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting,

Concerned that the education gap is far more serious on a world-wide basis than has been recognized by the accounting profession so far,

Convinced that there is a need for global qualification standards which should be endorsed on an intergovernmental level in order to promote global acceptance and to invest them with the proper authority,

Considering that the International Federation of Accountants is the appropriate body to serve the world in the area of accounting education,

1. Calls upon the International Federation of Accountants to change its approach and to focus on the real educational problems globally;

2. Decides to look for other ways and means of accomplishing this task if the International Federation of Accountants, for whatever reason, is not in a position to take it up;

3. Recommends the following terms of reference for consideration by the International Federation of Accountants:

(a) To develop global qualification standards for accountants and auditors to be endorsed by the United Nations;

(b) To develop a professional accreditation system based on the global qualification standards;

(c) To develop a multilingual world dictionary of accountancy;

(d) To take into account the different environments that exist in the world by involving the regional bodies of the International Federation of Accountants;

(e) To start with the qualifications for accountants as the suggested order in developing the global qualification standards;

(f) To liaise with the World Bank and other international bodies, where appropriate;

(g) To consult with the Bureau of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting;

4. Requests the International Federation of Accountants to report to the Group at its twelfth session, in 1994.

Decision 11/101. Ad hoc consultations on a master plan

The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting requests the Secretary-General to explore with interested parties, international, public and private, ways and means of launching a consultation process with a view to promoting global interaction for the advancement of accounting and professional education.

II. ACCOUNTING EDUCATION AND STRENGTHENING OF THE PROFESSION

A. Review of curricula for accountants and auditors at the global level

3. At its 1st meeting, on 4 March 1993, the Group took up the report of the Secretary-General on the global review of the state of accounting and auditing education and training (E/C.10/AC.3/1993/2). In introducing the report, a member of the Secretariat noted that the report gave a global view of the state of accounting education based on a statistical summary of the data contained in a questionnaire circulated to all member countries, leading academics and heads of professional associations.

4. The basic premise of the report was that education was necessary to prepare accountants to take up their role and meet their responsibilities, which were constantly changing. The profession was falling behind in producing individuals equipped to operate either in a modern economy or in a global economy. The study concentrated on education systems that prepared the highest-level accountants or those with the designation of independent auditor. The average profile of the accounting education system that emerged from the data was that of a technically oriented curriculum.

5. The representative of the European Community (EC) explained that in the Community there were specific requirements for statutory auditors. They had very strict educational requirements so that the public interest was protected. Those requirements were set out in the 8th European Community Directive. On the other hand, accountants had many roles and the Community had not formulated the requirements for their education. Therefore, it was important to make a clearer distinction in the report between the education required for accountants and that for auditors.

6. The expert from Kenya stated that, ideally, there should not be a distinction between accountants and auditors. Competence and independence were required of both, so their education should not be different. The expert from the Sudan added that accountants and auditors should have the same level of education. Distinction would be made in accordance with training and specialization. The representative of EC replied that he had not suggested that there were two different professions or that accountants did not need to be competent; rather, he wanted to stress that auditors must fulfil certain requirements because they worked in the public interest. Those requirements were different from those providing accounting services. That must be more clearly stated in the report.

7. The experts from Germany and Hungary observed that in their countries a distinction was made between the different levels of the professions - that is, between bookkeepers, accountants and statutory auditors. They recommended that a clear distinction be made. The expert from Gabon was of the opinion that the distinction between accountants and auditors should not be based on the level of training but rather on whether they had public or private responsibilities. However, the expert from France observed that commercial accountants or those working for firms should be bound by the same ethical rules as auditors. The expert from India said that it was clear that the questionnaire had targeted statutory auditors or accountants at the highest level and that the discussion was not about bookkeepers. The Group should be talking about the education given to the highest level. The Chairman suggested that the discussion focus on accounting education in general, with special attention to auditors.

8. At its 2nd meeting, on 4 March 1993, the Group took up the report of the Secretary-General on responsibilities of the accounting profession and the direction of accounting and auditing education (E/C.10/AC.3/1993/3). The observer for the United States of America noted that accountants and auditors were providers of important information for external and internal users. The way they were educated was critical to carrying out those responsibilities. The report distinguished four stages in professional accounting development: individual accounting practice; pre-profession; early profession; and mature profession. Those four stages related to the stages of economic development and the role and responsibilities of the accountant. In his view, as economic development increased, accounting education must shift from a technical focus to broader business knowledge.

9. The expert from the Sudan stated that the report contained a clear demarcation between the different levels of accountants by introducing the four stages of professional accounting development. It was also obvious that there was a relationship between the state of economic development and the work of the accountant. At each stage standards were needed to guide the work. In some countries there were conflicting demands for accounting information. In his view, there should be uniform accounting standards. While one could make a distinction between the different stages of professional development and the different education needed, a distinction should not be made between the education obtained at each level in the developing countries compared to the developed countries.

10. The Chairman suggested that two types of standards needed to be formulated. The first standard would be a benchmark for professional qualifying examinations. The second standard would be for licensing.

11. The representative of EC responded that EC had tried to deal with the two problems of qualification and licensing. Although the curricula had been harmonized, at least for statutory auditors, mutual recognition of qualifications still depended on the auditor passing a test of knowledge of the local law of the country in which he or she wanted to be licensed.

12. The representative of the Fédération internationale des experts-comptables francophones (FIDEF) stated that since there was one accounting profession, there should be one accounting requirement and it should be dealt with in a global way. Everyone should have access to the profession and related education. The development of a global requirement would help the profession in the developing countries. The expert from Poland explained that, while the situation was very different in her country, it would be much easier if there were international qualifications. While there were many accountants in her country, they all needed to be retrained in order to operate in a market economy. It would be much easier to retrain them if there was a minimum curriculum that the country could follow. It would be much easier to convince the authorities of the appropriateness of the retraining being proposed.

13. The expert from Germany agreed that it was necessary to distinguish between qualification and licensing. Possibly, the United Nations could create an institute that could deal with the questions of qualification and develop a system that would be of benefit to national institutes.

14. The expert from the Netherlands was of the view that the "expectations gap" had nothing to do with education. The expectations gap was a result of other problems facing the profession which could not be solved by education. However, what might be lacking was continuing education. If one looked into the cases where a firm had been sued, often the people responsible for the audit had been educated 20 years ago. The problem was how to keep them up to date since those who were successful in practice did not have time to keep abreast of all the changes. The expert from Germany agreed that accountants could not fulfil all public expectations or guarantee the continued existence of enterprises. The expectations gap could not be closed by education; the public must realize that the accountant had certain limitations. For example, statutory audits only related to past financial statements, not to future ones. Secondly, there was no audit of direct management decisions. If the profession had to pay the claims mentioned in the report, that could be the end of the profession. The savings and loan crisis was not caused by auditors but by economic conditions; also, the supervision could be questioned. Therefore, he could not agree with paragraph 31 (a) of the report, which suggested that auditors assume more responsibility for the detection and reporting of fraud and illegal acts. He indicated that the problem was a balancing between public expectations and a realization of the limitations of the profession. He urged a limitation on liability.

15. The observer from the United States of America stated that the recommendations in paragraph 31 were from the Treadway Commission report and that the obligation to assume more responsibility for fraud and illegal acts

might soon be imposed by law in her country. The expert from the Sudan added that there was a tendency on the part of users of financial statements to think that auditors could do all things. That issue should be taken up by the International Federation of Accountants so that practitioners could be protected.

16. The expert from India suggested that the question of responsibilities of auditors could form a topic for further discussion. Such questions as where do auditors' responsibilities started and ended and where did parliaments or public accounting committees come in could be included. Regarding paragraph 31, he was of the opinion that audit effectiveness should be improved. He asked whether auditors were equipped at all to find fraud or understand what was really going on since they seemed to be immersed in the routine aspects of financial statements. For example, how well could they get to the bottom of the vast changes that occurred during capital restructuring? The issue that should be discussed was how could they be prepared to deal with complex problems - especially after they had completed their education. The Chairman agreed that it would be worthwhile to set up a one-day forum to discuss the responsibilities of auditors.

17. Considering that paragraph 31 reflected the belief of many members of the public and financial statement users, the Group felt that another paragraph should be added which would contain the profession's view that it was being held more responsible for detecting adverse developments than it should be.

18. The representative of the European Community recommended the following amendments in both reports under discussion:

(a) A clear distinction should be made between the education of accountants and that of auditors;

(b) Paragraph 58 of document E/C.10/AC.3/1993/2 should be amended since the question of salary was not a typical problem for the accounting profession; paragraph 59 should mention that the International Federation of Accountants (IFAC) should be invited to participate in the work described; in fact, IFAC could do many of the things mentioned in paragraph 59 such as developing international qualification and teaching materials and a multilingual glossary;

(c) Improvements should also be made in "continuing" education which might remedy some of the problems being encountered at the stage of the mature profession.

19. The Chairman closed the discussion by saying that it was the opinion of the Group that, while the documents were excellent, they needed some amendments. It was clear that education was the basic foundation of the development of the profession and that education needed to be improved. It was useful to distinguish between qualifications and licensing. The Chairman noted that global educational standards and continuing education standards needed to be formulated.

B. Review of training programmes in Africa, Asia, Latin America, Europe and North America

20. At the 3rd and 4th meetings, on 5 March 1993, the Group reviewed training programmes in the various regions based on the reports of the Secretary-General:

(a) "Regional review of accounting and auditing education and training in Africa" (E/C.10/AC.3/1993/4);

(b) "Regional review of accounting and auditing education and training in Asia and Latin America" (E/C.10/AC.3/1993/5);

(c) "Regional review of accounting and auditing education and training in Europe and North America" (E/C.10/AC.3/1993/6).

21. A member of the United Nations Secretariat explained that those reports were summaries of the information found in the replies to a questionnaire on accounting education that had been circulated to all member Governments, leading academics and the heads of professional organizations. There had been approximately 91 replies from 73 countries, representing a response rate of over 39 per cent. Resources did not permit the verification of data and the country experts were invited to provide more complete information. The questionnaire data had been computerized so as to facilitate further analysis.

22. She noted that 30 African countries had sent replies and that the information contained in the African questionnaires was consistent with earlier findings presented in Accountancy Development in Africa: Challenge of the 1990s. 3/ It appeared that many countries had had difficulty providing the training necessary to produce fully qualified accountants. Licences were given only in about 15 of the countries submitting information. In the remaining countries only an academic degree could be earned. In those circumstances, accountants often sought a foreign credential. Very few of the teaching faculty had professional certification, and salaries were very low. The main deficiencies were lack of trained faculty and lack of appropriate materials. That affected the quality of accountants and made it difficult for accounting education to contribute to accountability in the public sector.

23. A representative of the World Bank stated that the Bank was very concerned about the fragmentation of accountability in Africa and that it was necessary to design a more cohesive framework for international accounting activities. A concerted approach across a broad range of aspects was needed in the context of assuring good governance. If those other aspects were not addressed, education and training programmes would continue to falter. The Bank was therefore developing a comprehensive programme that included the development of accounting and auditing standards, a quality review scheme for auditors, and strengthening of the profession as well as training. The programme, which put accountability into a broader context, would be discussed with 22 donor countries in the near future. He noted that one neglected area of training was that of information technology and computer-aided accounting.

24. The representative of the Fédération internationale des experts-comptables francophones (FIDEF) thought that such a comprehensive programme would allow the Bank to make an effective contribution. He added that the Bank needed to ensure

that there were adequate conditions for the absorption of its resources so that they didn't "melt like snow in the sun". It was important to sell certain ideas before making investments. The recipients must be convinced of the need for accountability and must recognize the contribution of an independent accounting profession in achieving such accountability. In other words, it was important to identify the agents of change. As long as there was no profession in certain countries, accountability could not be achieved.

25. The representative of the African Accounting Council stated that the question of education was a front-line issue for the Council and that it had developed programmes and practical approaches to meet its educational goals. He explained that the Council sought to assess and ensure the coherence of various international programmes so that existing resources were used more efficiently. He announced that agencies would be invited to participate in a high-level workshop on the topic. Invited by the Chairman to describe the Council's operational programmes, he mentioned a framework for education and training, a think-tank for designing training programmes and materials, and fellowships for study abroad. He said that some years ago the World Bank had established a 10-year programme for accounting development that would continue for the next six years.

26. The expert from Nigeria asserted that in his view the profession could not be strengthened if it did not exist; therefore education had to come first in any strategy. He indicated that he had attended an extremely large number of conferences on accounting education within the past 20 years, including one in Zaire in 1983 and another in Dakar (Senegal) in 1991. While exchanging views was always interesting, what was needed was action. Unfortunately, there had been no action after those conferences. Concrete steps needed to be taken in the area of regional training centres, materials development, and the application of computer technology. In Dakar, he had seen a regional training centre that could promote accountancy development but had been unable to fulfil that task owing to lack of funds, local professors and materials. He went on to say that regional centres were needed because a country approach was sometimes too expensive, and he asked the Group to re-examine the regional approach.

27. The expert from Lebanon noted the legislative developments in his country that were laying the basis for a strong profession. In particular he stated that a law was about to be enacted to regulate the profession. International accounting standards had also been adopted. The national professional association had contributed to the process by conducting training courses and was preparing an international conference on standard-setting.

28. The expert from Gabon supported Nigeria with respect to the need for the establishment of regional training centres, which had been recommended both in Abidjan (1988) and Dakar (1991). He was of the opinion that commercial accountants, government accountants and auditors must follow a common line of studies until they needed to specialize. He expressed satisfaction with the fact that the Bank's programme was directed towards countries in sub-Saharan Africa. He noted that accounting training programmes were often unsatisfactory and urged the Bank to consider the standardization of accounting education.

29. The expert from the Sudan noted that while his country produced many qualified accountants, many of them left to work in the Gulf States. As a

result, there was an insufficient supply in the government and private sectors. The Sudanese Accounting Council has been created for the purpose of strengthening the profession and for licensing. However, it was not able to offer training to its members owing to lack of foreign exchange.

30. The expert from Kenya thanked the United Nations Secretariat for assembling the document under review, which showed the dire need to strengthen both education and the profession. Kenya was in a slightly more favourable situation than other countries in that it had a large number of accountants and a large number of training institutions, including one college sponsored by the professional institute. That college had been set up largely by the profession to provide high-quality training. The college had approached the World Bank under its capacity-building programme in order to widen the activities of the college. In the future, postgraduate courses would be provided on a number of business and management subjects.

31. The Group then turned its attention to the review of accounting education in Asia and Latin America. The expert from India stated that the situation in general was good in his country owing to the educational system and the existence of independent professional organizations that held rigorous examinations and insisted on practical experience. However, supply exceeded demand, and that caused significant problems in that many chartered accountants engaged in cutthroat competitive practices in order to obtain business. If a firm found that the auditors were not obliging, it could easily replace them, causing an erosion of professional ethics. That element was missing from the questionnaire, and he wondered how the Group could take up the question of professional ethics. He agreed with the comments of the representative of the World Bank on the necessity for introducing the computerization of accounts into the curricula so that fully qualified accountants would be fully equipped when licensed to fulfil their various tasks.

32. The experts from China, Cyprus and Thailand offered amendments to the text of the report to be taken up in its final version.

33. The Group then considered the situation in Europe and North America. The observer from the United States of America commended the Group for its work in taking up the topic and producing the series of reports. She looked forward to the Group's final recommendations on accounting education. She suggested amendments to the text of the report.

34. The expert from France thought that a clearer distinction was needed in all the reports between accountants in the public and the private sectors. He agreed that government and academic accountants earned less than accountants in the private sector. However, he wondered whether the percentages included in the table adequately reflected such differences. He observed that the critical remarks in the report about accounting education in France were the reflection of a general desire to improve the educational system and should not be interpreted as a criticism of the adequacy of accounting education in his country.

35. The representative of the European Community suggested that a paragraph be added on common elements shared by members of the Community regarding accounting education, such as common rules for the training of statutory auditors. He

noted that while it was true that class sizes in Europe were large, this was due to the democratization of education and was not peculiar to accounting. In the same way he thought that the fact that accounting professors earned lower salaries than their colleagues in practice was not typical and therefore not highly relevant. Moreover, he stated that accounting professors could normally do consultancy work which might provide them with additional income. He was of the view that the European Community on the whole did not lack trained professors. The experts from Italy, Switzerland, Spain and Sweden made corrections to the text to be taken up in the final report. The representative of the European Community corrected information regarding his own country, Belgium.

36. The expert from the Netherlands said that it had been hard to fill in the questionnaire owing to a certain confusion over what was to be included. He mentioned that Netherlands universities issued diplomas that automatically qualified the recipients as auditors and members of the professional institute. To receive the diploma they needed a doctorate in economics and three years postgraduate experience. The professional institute also had its own educational programme and examination, which were recognized by law to be of the same calibre as the university diploma. Education in the Netherlands was based largely on the clinical model described in document E/C.10/AC.3/1993/3. In that model postgraduate education was largely provided by part-time instructors such as him. While there were deficiencies in the Netherlands system, in general it was up to standard in quality.

37. The Group then turned its attention to the situation in Central and Eastern Europe. The expert from Bulgaria stated that the Group had the responsibility to come up with a global view of accounting education, since in some countries the concept of accounting education was not clearly defined. He elaborated on the various levels of accounting and auditing education in his country.

38. He was followed by the experts from Hungary and Ukraine who also explained their systems. The Ukrainian observer said that retraining accountants in his country was difficult because of uncertainty over which accounting system to use - the Anglo-Saxon or the continental (European) one.

39. The observer from Poland reminded the Group that the accounting profession had been established in Poland in 1907 and that at present the system had provided 15,000 accountants with a very high level of education. Seven thousand of those accountants had become certified auditors. Very often foreign experts did not understand that Poland had a good foundation for making the shift to a market economy and was not starting from zero. For example, cost-accounting was well known to Polish accountants; it was financial accounting that must still be learned. In the area of accounting education, Poland must develop its own standards after discussion and not have those standards imposed.

40. The observer from the Czech Republic noted that the statement of the observer from Poland regarding the quality of her country's educational system applied to his own country as well. The Czech Republic's educational system had enabled his country to make enormous progress in shifting to a market economy and new rules on accounting. The Union of Accountants had created a group of trainers and had given lectures to all accountants on the intent and content of the new laws. Currently those accountants must learn how to implement those

laws. A new chamber of auditors that had taken over a number of functions from the Ministry of Finance, including the certification of auditors, had also been established. The chamber intended to train auditors in the future but it had not yet decided on its programme. He thought that it might be necessary to set up a special body for training.

C. Reports by international and regional organizations

41. At its 5th and 6th meetings, on 8 March, the Group considered the three reports by international and regional professional organizations:

(a) "Professional accounting education: some requirements for the year 2000 and beyond" (E/C.10/AC.3/1993/7);

(b) "Recent developments affecting the European accountancy profession" (E/C.10/AC.3/1993/8);

(c) "The education of European accountants and challenges of the international economy" (E/C.10/AC.3/1993/9).

42. In introducing the reports, a member of the Secretariat said that they represented the views of the various international and regional professional bodies on accounting education. Since accounting was not a purely theoretical discipline but a largely practical one, the experiences of the professional bodies were extremely relevant in improving education.

43. In commenting on the report on professional accounting education requirements (E/C.10/AC.3/1993/7), a representative of the International Federation of Accountants described the dual objectives of its Education Committee, which were to develop guidelines, papers and policies on pre-qualifying and continuing education and to act as a catalyst to bring together developed and developing countries. The Committee, under its first objective, had issued a number of guidelines on pre-qualifying education and training, tests of competence, core knowledge and professional subjects, supportive subjects, practical experience requirements, education and training for accounting technicians, the impact of information technology on the accounting profession, professional ethics, and continuing education. Regarding the second objective, he said that the Committee had developed a clearing house concept to deal with the problems among developed and developing countries. The Committee saw itself in a brokering role, and it would support member bodies which wished to assist developing countries to make applications to the World Bank for funding.

44. He stressed that if accountants were to succeed in a dynamic environment, then accounting education must give them the ability to engage in lifelong learning as well as various communication, negotiation, intellectual, accounting and personal skills. Above all, accountants had to be adaptable. It had been said that what counted was not what a person knew but what the person was capable of learning. He gave an example, in the field of information technology, of how the Institute of Chartered Accountants of Ireland was helping its older members to acquire the computer skills they needed to function in a modern work environment. He concluded by saying that a great deal was happening

in the field of education, that many educational materials were available for distribution and that possibly IFAC could start an information exchange system through a newsletter or other means.

45. The expert from Jordan stated that while he appreciated the report, one had to look at the problem of accounting education from a practical aspect. Many things needed to be done in the field of accounting education, particularly for the developing countries and countries in transition. Unfortunately, the report contained nothing in the way of application which would help close the "education gap". He suggested that IFAC promote international standards for qualifying accountants and an international examination. They would solve the problem of world-wide recognition, which was currently being solved on a bilateral basis through mutual recognition. Two things were needed: a master plan for accounting education, and an international leader. The expert from Nigeria thanked IFAC for its contribution and allied himself with the statement of the expert from Jordan. He thought that the challenge could be taken on by a consortium of IFAC and the World Bank, since the Bank had the resources to fund the ideas of IFAC. Other bodies such as ISAR should also join together in the effort.

46. A number of experts commented on the stress given to general knowledge in the report, and they were of the opinion that such general knowledge was required of all professionals - not just accountants. The expert from Sudan added that it was unclear how one could distinguish pre-qualifying education from general education. He stressed the need for standardization for the benefit of better guidance to developing countries. As an example, he noted that some accounting curricula were comprised of only a small number of subjects (the United States curriculum for CPA was comprised of about six subjects), while others were far more extensive (some European curricula were comprised of 14-18 subjects).

47. A number of experts asked specifically what IFAC was doing to help developing countries and countries in transition. The expert from Germany asked if IFAC would like to work with ISAR to develop world-wide standards for a qualification. The expert from Kenya stated that IFAC had not fulfilled its role to develop the profession world wide and noted that probably there was a question of resources. Developing countries needed investment in accounting education and adequate standards. The expert from Gabon mentioned that programmes of structural adjustment had been forced on many African countries. He asked how they could be successful when there was no reliable accounting information, because there were no qualified accountants. Some African countries did not have even one certified public accountant. It was not enough for international organizations such as IFAC and the World Bank to have the will to help. If the World Bank was requiring structural adjustment, it should provide the means. In addition, there was not a single member country in IFAC from his group of francophone African States.

48. The expert from the Netherlands said that the report was too vague and that a more operational document was needed. He focused on four areas which could assist developing countries. They were:

(a) The distinction between different types of accountants and auditors;

(b) A focus on the career development of students. The education described in the report was what a 50- to 60-year-old professional should attain, whereas the focus should be on how young people could get into the profession. In his country there were two tracks - one via the university, and the other "learn as you work". The latter might be an important solution for developing countries, because it resulted in high quality but also gave the student the opportunity to work;

(c) The report gave the impression that accounting education was a question of assembling various building blocks, whereas education should be circular: students needed to see everything at an early stage and to continue to go into depth throughout their studies;

(d) Lastly, there was a relation between pre- and post-qualification. It was not possible to educate the student for every possible situation; some things needed to be left for post-qualification study, and that could reduce the burden of pre-qualification education.

49. The expert from Switzerland said that his country had a system of apprenticeship which might be a solution for developing countries. He agreed with the proposal of the expert from Jordan for a world-wide solution to the question of qualification. The expert from Pakistan suggested that IFAC also prepare training materials for that qualification, as had been done by the Conference of Accountants of Asia and the Pacific for accounting technicians. The expert from India remarked that the report largely discussed the education relevant to developed countries, whereas it was the developing countries that needed the improvement. The question was how the ideals in the report could be translated into reality for the developing countries.

50. The representative of IFAC responded to the comments in general by saying that he would report them back to the Council of IFAC and that the Education Committee could take limited action on some points. The main difficulty in taking up all the proposals was one of resources. Regarding developing countries, he said that the Committee had identified Africa as an area where IFAC could be of use but that most of its efforts would be in the capacity of "catalyst". The Chair concluded the discussion of the report by again urging IFAC to harmonize educational standards.

51. The Group then turned its attention to the report which described the situation in Europe (E/C.10/AC.3/1993/8). The Secretary-General of the Federation of European Accountants noted that historically the most significant characteristic of the profession in Europe was its diversity. However, the profession was currently facing the same two challenges throughout the region. The first challenge was to respond to the marketplace, which was becoming less national and more international, and to provide more similar services throughout that market; the second was to operate within a regulatory framework which was also decreasingly national and increasingly regional and international. Education and training had to respond to both challenges. The Eighth EC Directive, by harmonizing the minimum requirements for the authorization of statutory auditors, provided a solid common base for the liberalization of the accountancy profession, including the mutual recognition of qualifications. The

report focused on the response of the profession to that evolving regulatory framework. Two aspects of their profession were regulated: the services offered, and the organization of the profession. With the creation of a single economic area in Europe, considerable attention was being given to the provision of "cross-border services", based on the procedures of mutual recognition. The potential benefits of the European model, including the Eighth Directive, to other countries and regions were explored.

52. During consideration of its report (E/C.10/AC.3/1993/9), the representative of the European Institute for Advanced Studies on Management mentioned additional challenges facing accountants which should be considered when trying to improve accounting education. They included the expectations gap, the difficulties encountered in harmonization and the fragmentation of the profession. Too often, in his view, the education of accountants reflected a national position versus a European one, since accountants must qualify, certify and practise nationally. Nevertheless, the Eighth EC Directive tried to counter that, and it was having some effect. He also mentioned the difficulties in Eastern Europe where the entire profession must make the transition to a market economy.

53. The representative of the European Community thought that the implementation of the Eighth EC Directive was leading to major modifications in the regulation of the profession of statutory auditor. He explained that some countries had decided to create a second educational title because of the different options chosen under the Fourth EC Directive, particularly for accountants who served companies not requiring a statutory audit. The directives had to have a certain respect for the national accounting environments and, therefore, it was incorrect to state that options were an impediment to harmonization. The aim in the Community was not for complete standardization; it was necessary to allow for different treatments in the appropriate circumstances. While the text of the directives might be obscure, the alternative would be to produce a "cookbook", and he did not believe that everything should be regulated.

54. The expert from Germany, in reviewing the three reports, stated that they were not helpful because they did not propose any way to attain the educational objectives presented. He thought that the Group should discuss qualification rules and if it could reach an agreement world wide on the level of the Eighth EC Directive, many problems would be solved.

55. The experts from Bulgaria, the Czech Republic, and Poland stated that the description given in the report of the situation in their countries (E/C.10/AC.3/1993/9) did not give a faithful picture and it was suggested that the section be rewritten with the help of the experts present.

56. The representative of FIDEF commented on the role of the profession in accounting education in Africa. The profession had a double role, which was to help students acquire practical knowledge and theoretical knowledge. In countries where there was no profession - or only a small one - accountants were forced to study abroad. He urged IFAC to help strengthen the profession by supporting centres for technical training and by disseminating its standards. He called for an action plan that had targets and that made better use of the existing infrastructure.

57. In closing, the Chair said that he was glad that the developed countries were sympathetic to the developing ones but that the educational gap seemed to be widening. A global profession was needed, with global qualifications. He again asked which international organization was going to be the leader and develop a master plan for the development of education on a world-wide basis. With responsible leadership, funding would be made available. Such a plan would benefit all, since it would create an environment which had acceptable standards.

58. He also commented on the approach taken by the European Institute for Advanced Studies towards harmonization within the EC.

D. Accounting education and strengthening of the profession

59. At its 7th meeting, on 10 March, the Group considered six proposals from the Chairman which, if adopted and implemented, would help accountants and auditors better fulfil their global responsibilities by fostering the creation of a global profession. 4/ Three proposals, pertaining to the establishment of global qualification standards, a professional accreditation system and a multilingual dictionary of accountancy, were taken up together.

60. The expert from Germany affirmed the need for global qualification standards which would make the accounting professional equal around the world. It would be necessary to guarantee that only those who met the standard were registered. While in many countries a high level of accountancy had been achieved, there was no common guaranteed level world wide. This posed problems for developing countries and countries in transition, in which accountants were not accepted equally. He suggested that, based on the standards currently proposed, at a later stage new designations should be established, that of United Nations registered accountant and, on a higher level, that of United Nations registered auditor. There remained the question of who should develop such standards. He recommended the creation of a working group by IFAC, the World Bank and other interested parties, in which government representatives would participate from the beginning. Once the standards were written, the United Nations could enter into agreements with government agencies or other institutions which met the standards, and the tasks of training and examination could be handled on a franchise basis. The tasks should be supervised by the United Nations so that a minimum level was achieved. He believed that many professionals would be interested in becoming a United Nations registered accountant or auditor. Such a title would guarantee global acceptance of an accountant's work. However, licensing would have to remain at the national level.

61. The expert from France mentioned that IFAC already had a standard for examination. The Chairman explained that what was meant by global qualifications standards included specifying the curricula, textbooks, examination materials and methods for conducting the examinations. The expert replied that he did not think that such work was within IFAC jurisdiction and that, furthermore, there would be financial problems. However, IFAC would be a source of guidance.

62. A number of experts fully supported the proposal as stated by the expert from Germany, including the experts from Cyprus, Mexico, Morocco, Nigeria, Pakistan, Poland, Sudan, Sweden, Switzerland and Ukraine. The expert from Switzerland added that he would like IFAC to undertake the task but that he was reluctant to give that role to IFAC without further guidance, since it had such a heavy Anglo-American orientation. It would be necessary to broaden its perspective by involving the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting. The Chairman noted that the participation of a number of organizations such as the World Bank would ease the financial burden.

63. The expert from the Netherlands concurred with a number of the ideas being considered. However, the normal procedure was to leave as much to the profession as possible and it should therefore be given the opportunity to improve its performance on its own. It was clear that IFAC should be involved in that effort; the question was how to get it to move. If it were unable or unwilling, ISAR would have to seek other means. The representative of the European Community agreed with the expert from the Netherlands and said that it was important to ask IFAC to undertake that task. IFAC should be urged to consider the various regional approaches and should start with the qualifications for accountants rather than those for statutory auditors. The concepts of qualification and licensing should be separate. The United Nations designation would not enable accountants to practise all over the world.

64. The expert from India doubted that IFAC could undertake the task, because it seemed to be bogged down and suffered from tunnel vision. He was joined by the expert from Nigeria who thought that IFAC reflected the views of its financial supporters and that it did not have a global perspective. Therefore, together with the expert from Brazil, he thought that the Group would have to monitor the work. The expert from Bulgaria stated that the problem should be resolved within the Group and that IFAC might do the work under contract but the direction or terms of reference should be framed by ISAR.

65. The Chairman suggested that ISAR should start consultations with the World Bank and IFAC for a global master plan on accounting education and related matters, and an ad hoc committee should be formed to propose a plan of action. The Group agreed to that proposal.

66. The Group then considered the proposal that the United Nations should organize a forum to discuss the responsibilities and liabilities of auditors. The Chairman suggested that the United Nations invite lawyers, members of accountancy bodies and accountancy firms, and government regulators. The representative from the European Community thought that the topic was primarily a problem for developed countries and that it would need careful preparation. He therefore asked that it be kept as an item but postponed. He also pointed out that preparations for such a forum should take into account the various legal environments throughout the world. The experts from France, the Netherlands and Switzerland agreed with the idea of postponing the forum.

67. The experts from the Czech Republic, India and Sudan stated that they were all trying to deal with the problem and that the topic should not be postponed since it was a world-wide issue. The Group concluded that the forum should be held during the 1995 session.

III. ADOPTION OF THE REPORT OF THE GROUP ON ITS ELEVENTH SESSION

68. At its 9th meeting, on 12 March 1993, the Group adopted the draft report on its eleventh session (E/C.10/AC.3/1993/L.3 and Add.1-5), as amended during the discussion.

IV. ORGANIZATION OF THE SESSION

A. Opening and duration of the session

69. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting held its eleventh session at United Nations Headquarters from 4 to 12 March 1993. The Group held nine meetings (1st to 9th meeting) and a number of informal meetings.

70. The session was opened by the Chairman of the tenth session, Mr. István Friedrich (Hungary).

B. Membership and attendance

71. In accordance with Economic and Social Council resolution 1982/67, the Group is composed of 34 members, elected on the principle of equitable geographical distribution.

72. The following States members of the Group were represented at the eleventh session: Brazil, Bulgaria, Chile, China, Cyprus, France, Gabon, Germany, Hungary, India, Italy, Jordan, Kenya, Lebanon, Mexico, Morocco, Netherlands, Nigeria, Pakistan, Russian Federation, Spain, Sudan, Sweden, Switzerland, Thailand, Turkey and the United Kingdom.

73. The following States Members of the United Nations were represented by observers: Belarus, Czech Republic, Poland, Romania, Ukraine and United States of America.

74. The World Bank was represented by observers.

75. The Commission of the European Communities, the Organisation for Economic Cooperation and Development and the Organization of African Unity were represented by observers.

76. The following non-governmental organizations in consultative status with the Economic and Social Council were represented by observers:

Category I: International Chamber of Commerce

Roster: Arab Society of Certified Accountants

77. With the approval of the Group, the following organizations attended the session as observers: the Fédération des experts-comptables européens, the Fédération internationale des experts-comptables francophones, and the International Federation of Accountants.

C. Election of officers

78. At the 1st meeting, on 4 March 1993, the Group elected the following officers:

Chairman: Talal Abu-Ghazaleh (Jordan)

Vice-Chairmen: Herbert Biener (Germany)
Ravi Kathpalia (India)
Antonio C. de Santana (Brazil)

Rapporteur: G. G. M. Bak (Netherlands)

D. Agenda and organization of work

79. At the 1st meeting, on 4 March, the Group adopted the following provisional agenda, as contained in document E/C.10/AC.3/1993/1:

1. Election of officers.
2. Adoption of the agenda and other organizational matters.
3. Accounting education and strengthening of the profession.
4. Provisional agenda for the twelfth session of the Group (on a pro forma basis).
5. Adoption of the report of the Group on its eleventh session.

80. At the same meeting, the Group approved its organization of work as set out in document E/C.10/AC.3/1993/L.2.

81. At the 8th meeting, on 10 March 1993, the Secretary of the Group reminded the members that the terms of 18 countries would expire at the end of 1993. If they wished to renew their memberships, their Governments should so indicate in writing as soon as possible. The elections for the Group would be held on 29 and 30 April. If re-elected, a country would serve for a three-year term.

82. On the basis of three draft resolutions proposed by the Chairman, the Group then considered the remaining organizational matters: the size of the Group, the funding of the travel of experts from developing countries, and the resources allocated to the work of the Group by the United Nations Secretariat, and the timing of the meeting. Several experts reminded the Group of the special nature of the current session, as approved at the ninth session in 1991. They questioned whether it was appropriate to have resolutions on the agenda that did not specifically relate to the topic assigned for the special session.

83. The Group noted the growing number of countries interested in the work of the Group, particularly new Member States, many of them countries in transition. The expert from Germany said that he supported the increase in membership. Furthermore, he supported open membership, since all interested members of the Economic and Social Council should be able to join. There was no reason to have a closed shop. The expert from Switzerland favoured a step-by-step approach and thought that an increase to 40 or 50 would be more appropriate. The Chairman stated that there were no countries from North America and that some countries which had large accounting professions were absent. In particular he made a strong appeal that the United States of America rejoin the Group. The Group concluded that it would request an increase in membership to 50, according to the following pattern: 13 members from African States, 10 from Asian States, 6 from Eastern European States, 7 from Latin American and Caribbean States, and 14 from Western European and other States.

84. The Group then discussed the funding of the expenses of experts from developing countries for attending the sessions. The representative of the World Bank stated that he often faced the problem of balanced participation of experts from developing countries and that it was necessary to fund their travel. The experts from Gabon, Nigeria and India supported the proposal to fund the expenses of experts from developing countries within existing resources and appealed to the experts from France and the Netherlands to consider the matter, despite their reluctance on procedural grounds. The Group concluded that it would request the General Assembly to consider granting travel assistance, within existing resources.

85. The Group then discussed the impact of the restructuring of the United Nations Secretariat on its work. Since the Group was the only forum open to developing countries and countries in transition, it was necessary to ensure that it would have sufficient resources to fulfil its mandate. The expert from Nigeria stated that financial reductions would affect the implementation of the programme of work and cause developing countries to suffer. Therefore, it was important to consider the impact of restructuring at the current session. The representative of the World Bank noted that large organizations often gave mandates but then did not vote the resources. Given the lack of rationality, he agreed with the necessity of having a specific resolution on the subject. The Group concluded that it should call upon the Secretary-General to ensure that the appropriate structure and resources were made available within the United Nations Secretariat so that the Group could effectively carry out its mandate.

86. Three draft resolutions on those matters (E/C.10/AC.3/1993/L.6, L.7 and L.8) were submitted by the Chairman and were adopted by consensus.

87. The representative of the Netherlands made a statement of position on the three draft resolutions. He said that his delegation had joined the consensus since it supported the underlying principles of the drafts. However, his delegation was not convinced that they should be adopted at a special session of the Group. Furthermore, he stated that his delegation was of the opinion that the operative paragraph of the draft resolution contained in document E/C.10/AC.3/1993/L.7 could only be interpreted as financial support to cover travel expenses as stipulated in various General Assembly resolutions. Lastly, he said that his delegation recognized the wish of many delegations to enlarge

the size of the Group, but his delegation questioned the proposed size and distribution of the seats among the various regional groups.

E. Documentation

88. The documents before the Group at its eleventh session are listed in the annex to this report.

Notes

1/ Official Records of the Economic and Social Council, 1988, Supplement No. 7 (E/1988/17), chap. I, sect. C.

2/ E/C.10/1993/12.

3/ United Nations publication, Sales No. E.91.II.A.2.

4/ On 9 March 1993, at an informal meeting, the entire Group attended the Accounting Education Forum organized by the Transnational Corporations and Management Division. A panel of 12 academic experts discussed how accountants and accounting curricula could adapt to the needs of the decade and coming century. If a profession failed to change, it lost relevance, panellists agreed. Accounting education must prepare students to become accountants over the course of their careers, not be accountants upon graduation and certification, one panellist said. The challenges were not limited to accountants in developing economies. Europe must bridge the gap between East and West through better technical assistance. A number of suggestions were made in that regard, such as building on the existing accounting profession and knowledge in Eastern Europe.

Annex

LIST OF DOCUMENTS BEFORE THE GROUP AT ITS ELEVENTH SESSION

Document symbol	Agenda item	Title or description
E/C.10/AC.3/1993/1	2	Provisional agenda
E/C.10/AC.3/1993/2	3	Global review of the state of accounting and auditing education and training: report of the Secretary-General
E/C.10/AC.3/1993/3	3	Responsibilities of the accounting profession and direction of accounting and auditing education: report of the Secretary-General
E/C.10/AC.3/1993/4	3	Regional review of accounting and auditing education and training in Africa: report of the Secretary-General
E/C.10/AC.3/1993/5	3	Regional review of accounting and auditing education and training in Asia and Latin America: report of the Secretary-General
E/C.10/AC.3/1993/6	3	Regional review of accounting and auditing education and training in Europe and North America: report of the Secretary-General
E/C.10/AC.3/1993/7	3	Professional accounting education: some requirements for the year 2000 and beyond: note by the Secretary-General
E/C.10/AC.3/1993/8	3	Recent developments affecting the European accountancy profession: note by the Secretary-General
E/C.10/AC.3/1993/9	3	Education of European accountants and challenges of the international economy: note by the Secretary-General
E/C.10/AC.3/1993/L.1	2	Status of documentation for the session: note by the Secretariat
E/C.10/AC.3/1993/L.2	2	Organization of the work of the session: note by the Secretariat

Document symbol	Agenda item	Title or description
E/C.10/AC.3/1993/L.3 and Add.1-5	5	Draft report
E/C.10/AC.3/1993/L.4	3	Cooperation with the International Federation of Accountants: draft resolution
E/C.10/AC.3/1993/L.5	3	Ad hoc consultations on a Master Plan: draft decision
E/C.10/AC.3/1993/L.6	2	Enlargement of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting: draft resolution
E/C.10/AC.3/1993/L.7	2	Financial arrangements for the annual session of the Group: draft resolution
E/C.10/AC.3/1993/L.8	2	Structure and resources to fulfil the mandate of the Group: draft resolution

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UNITED
NATIONS

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Economic and Social Council

Distr.
GENERAL

E/C.10/1993/13
5 March 1993

ORIGINAL: ENGLISH

COMMISSION ON TRANSNATIONAL CORPORATIONS
Nineteenth session
5-15 April 1993
Item 7 of the provisional agenda*

ACTIVITIES OF THE TRANSNATIONAL CORPORATIONS AND MANAGEMENT DIVISION AND ITS JOINT UNITS

Role of transnational corporations in South Africa

Report of the Secretary-General

SUMMARY

The present report analyses the current economic situation in South Africa and identifies a need for structural readjustments in its economy. It then proceeds with an examination of some economic policy measures that are available to the Government.

Section I presents the current economic setting of the country in the context of the world recession. Unfavourable external and internal constraints are set off against more favourable balance-of-payments, currency, monetary and fiscal developments. A more favourable outlook is also presented for gold, South Africa's main export. Section II examines some economic measures that the Government has initiated or may undertake in the context of the need for structural readjustments of the economy. The measures discussed are the abolition of the dual exchange rate system; the privatization of industry; the restructuring of the economy by focusing on projects aimed at beneficiating South Africa's mineral wealth other than gold; and the fostering of a favourable tax regime. If mobilized, all of those measures would create an environment more conducive to attracting transnational corporations. Section III presents some overall conclusions.

* E/C.10/1993/1.

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INTRODUCTION

1. In its resolution 1992/34 of 30 July 1992, the Economic and Social Council requested the Secretary-General, inter alia, to continue preparing studies on the level, form and responsibilities of operation of transnational corporations in South Africa, including their non-equity business arrangements and their involvement in particular sectors of the South African economy. The Council, in the same resolution, also requested the Secretary-General to continue examining possible contributions of transnational corporations to the construction of a united and non-racial democratic South Africa in the economic and social fields, taking into account the special need for development in the areas of human resources, particularly the training of black South African entrepreneurs, employment, housing and health, and to report to the Commission on Transnational Corporations at its nineteenth session, the Council and the General Assembly on the implementation of that resolution.

2. The present report deals with the involvement and possible contributions of transnational corporations to an economy going through a period of readjustment. The Transnational Corporations and Management Division of the Department of Economic and Social Development of the United Nations Secretariat has discussed extensively the role that transnational corporations may play in the training of the black population in the reports (E/C.10/1991/10, and E/C.10/1992/6 and Corr.1) submitted to the Commission in 1992 and 1991 under the item entitled "Transnational corporations in South Africa". Moreover, a report combining excerpts from those two reports was submitted as a background paper under the title "Role of transnational corporations in employment and education of black South Africans" to the Follow-up Conference on International Educational Assistance to Disadvantaged South Africans, organized by the United Nations Educational and Training Programme for Southern Africa (UNETPSA) in cooperation with the Advisory Committee on UNETPSA and held at United Nations Headquarters on 8 and 9 September 1992.

I. THE ECONOMY IN THE CONTEXT OF WORLD RECESSIONARY CONDITIONS

A. External and internal constraints 1/

3. South Africa has an open economy that is highly dependent on international trade. As such, it has been affected both by sanctions imposed by its major trading partners in the mid-1980s and by the world recession of the early 1990s. A protracted global recession can, in fact, have a more damaging effect on South Africa's economy than the sanctions imposed by its trading partners, since South Africa has, through ingenious methods, been somewhat able to partially circumvent sanctions, at least on some of its trade.

4. In addition to external factors, namely, sanctions 2/ and the world recession, some domestic constraints resulted in a further deterioration in

economic conditions in South Africa during the first half of 1992 and in a deepening of the recession there. Those included a major decline in agricultural production caused by a severe drought in the areas of summer rainfall; disappointment with the progress made in the search for a new constitutional dispensation; an escalation in violence, industrial actions and mass demonstrations that adversely affected the performance of the economy; and a further erosion of investors' and consumers' confidence.

5. As a result of the concurrence of these factors, real gross domestic product declined by 0.5 per cent in both 1990 and 1991, and at annualized rates of 2 and 2.5 per cent in the first and the second quarter of 1992, respectively. Gross domestic fixed investment declined persistently through the first half of 1992, from 26.2 million rand in 1989 to 23.6 million rand in 1991, as consumers' and investors' confidence waned. The ratio of total savings to gross domestic product, which had averaged about 24.5 per cent in the 1980s, declined to 19 per cent in 1991 and to 18 per cent in the first six months of 1992. There was a further contraction, of 2.1 per cent, in total employment in the non-agricultural sectors of the formal economy in 1991, which implies that the number of unemployed increased rapidly over that past year. The private sector is currently eliminating jobs at the rate of about 1,000 a day at a time when it needs to create jobs at that very rate just to absorb new graduates entering the labour pool. 3/ Although the official statistics on unemployment are incomplete, 4/ the Government has accepted that actual unemployment is well over 20 and could be as high as 30 per cent. It is the black population, however, that at present is bearing overwhelmingly the main burden. According to the Economist Intelligence Unit, some 40 per cent of the economically active black population is unemployed. Another way of realizing the severity of the unemployment situation is to compare the number of unemployed with those who are employed - 7 million versus 8 million, according to one estimate. 5/

6. According to the scenario study conducted in 1991 by old Mutual/Nedcor, 6/ no country has ever experienced a successful transition to a stable economy in the absence of a sound economic performance before, during and after the transition. In light of South Africa's economic situation it has become clear that there needs to be a major redistribution of income and wealth in the country and that both the current and the future interim Government's policies, as well as foreign investors, have a crucial role to play in this process. Following Nelson Mandela's statement in January 1992 that the country faced a choice of either foreign investment or nationalization but not both, the African National Congress (ANC) softened its stance on nationalization as an economic objective and the policy is being evaluated constantly.

B. Favourable balance-of-payments, currency, monetary and fiscal developments

7. Against the background of these unfavourable economic conditions, one persistently encouraging development in the economy has been the sustained favourable performance of the current account of the balance of payments:

1991 registered as the seventh consecutive year in which total exports of goods and services exceeded total imports, with a current account surplus of 7.4 billion rand amounting to 2.5 per cent of gross domestic product (GDP) (see table 1). However, the surplus was estimated to decline to 4.5 billion rand for 1992 and to 3 billion rand for 1993, as is also shown in table 1.

Table 1. South Africa's balance-of-payments current account

	1990 a/	1991 b/	1992 c/	1993 c/
		(Millions of rand)		
Merchandise exports free on board (f.o.b.)	42 385	45 917	48 700	57 000
Net gold output	18 070	19 649	19 400	20 000
Merchandise imports f.o.b.	-44 100	-48 176	-52 500	-63 000
Trade balance	16 355	17 390	15 500	14 000
Net services and transfers	-10 568	-9 968	-11 000	-11 000
Current account balance	5 787	7 422	4 500	3 000
		Rand per dollar		
Average exchange rate (rand per dollar)	2.59	2.76	2.90	3.09

Source: Economist Intelligence Unit, Country Report: South Africa, No. 2, 1992.

a/ Actual figures.

b/ Estimates.

c/ Forecasts.

8. Another favourable balance-of-payments development has been an increase in the net reserves of the South African Reserve Bank which, amounting to 11.3 billion rand at the end of July 1992, were up sharply from 0.4 billion rand (the figure at the end of June 1989).

9. The favourable balance-of-payments developments have enabled the South African Reserve Bank, through active intervention in the foreign exchange market, to support a relatively stable real exchange rate for the rand, after adjustment for the difference between the South African rate of inflation and that of its major trading partners. From 31 December 1990 to 31 July 1992 the weighted average value of the rand in nominal terms depreciated by

7.9 per cent, but this figure amounted to less than the difference between the rates of production price inflation in South Africa and the comparable rates of inflation of South Africa's major trading partners. The result was a modest appreciation of 1.6 per cent in the real weighted average value of the rand over this period vis-à-vis the currencies of South Africa's major trading partners.

10. Another welcome recent macroeconomic policy development was the stimulus to a depressed economy provided by government finance. During the fiscal year 1991/92, government expenditure increased by 16.1 and revenue by only 7.4 per cent. The deficit before borrowing increased accordingly to 14.3 billion rand, representing 4.7 per cent of GDP. This policy development was countercyclical; however, it should be noted that the danger of a growing deficit before borrowing on debt servicing costs can be onerous, as these costs are now second only to those of education and larger than those of defence. However, the Department of Finance is aware of this danger and the Minister of Finance strongly determined to reduce the ratio of state spending to GDP.

11. Another positive recent macroeconomic policy development has been the stabilization in the growth rates in domestic monetary aggregates which has made a major contribution towards reducing inflationary pressures in the economy. Progress has been made since 1989 towards establishing the conditions that are basic for greater financial stability. The rate of increase in the broadly defined M3 money supply 7/ declined from 27 per cent in December 1988 to 22 per cent in December 1989, with a further decline to 12 per cent in December 1990 and to 10.6 per cent in February 1992. Over the 12 months from June 1991 to June 1992, M3 increased by only 7.5 per cent. Moreover, the corresponding rate of increase in total credit extended by the monetary to the private sector declined from 28 per cent in December 1988 to 20 per cent in December 1989, with a further decline to 16 per cent in December 1990 and to 9.1 per cent in June 1992. The present rates of increase are viewed by the South African Reserve Bank as having the potential to gradually reduce inflationary pressures further.

12. The abatement in inflation has not yet been reflected in the consumer price index (which in fact increased at the rate of 15.3 per cent in 1991 compared with 14.7 per cent in 1989), owing to the many rigidities inherent in the market transmission mechanism. Those rigidities create unavoidable and relatively long time-lags between the application of market-oriented monetary instruments, and the eventual effects they may have on the consumer price index. However, the Reserve Bank is optimistic that inflation will be brought down to a much lower level over the next year or so. In fact the increase in producer prices declined from 15.2 per cent in 1989 to 11.4 per cent in 1991 and by September 1992 the increase in producer and consumer prices was down to 13.5 per cent. 8/

13. A lower inflation rate will also justify lower nominal interest rates. Indeed, the Reserve Bank's bank rate was lowered consistently, from 18 per cent in 1989 to 17 per cent in 1991, with further declines to

16 per cent in March 1992, to 15 per cent in June 1992 and to 14 per cent in November 1992. The Reserve Bank has been progressively reducing its discount rate mainly because it has been satisfied with the progress made towards reducing the economy's underlying inflationary pressures.

C. Gold: a more optimistic long-term outlook

14. According to an estimate provided by the Anglo American Corporation, the world's largest gold producer, if the present price of gold (approximately US$ 340 per ounce) persisted for a year, many more marginal South African mines would be forced to close. 9/ This corporation also estimated that a price of US$ 500 per ounce was needed to keep South Africa's output stable, while a price of US$ 400 per ounce would cause the country's annual production of about 600 tons to drop by 100 tons over the next 10 years. A price of US$ 600 per ounce is needed if South African production is to increase. (South African gold output was down only slightly - by 20 tons, to 601 tons in 1991 - since the recent peak in 1988.) 10/

15. Prospects for an upcoming resurgence in the price of gold seem better in the future than they have been over the last two years. A sudden tightening of the balance between supply of and demand for gold has occurred. In 1991, jewellery fabrication demand rose nearly 4 per cent, to a record 2,111 tons, over that in 1990, while total fabrication demand for electronics, dental use and bullion coins rose 4.2 per cent, to 2,543 tons, over that in 1990. 11/ Of course, these figures would seem insignificant should there be any central bank disinvestment. Central banks have 35,000 tons of the metal in their vaults, and this is equivalent to about 17 years of production. 12/ In the past few years central banks have been net sellers, and they have the potential to limit price increases in the next few years as effectively as producers engaged in forward selling over the past few years. Some of the European central banks, which all together own about 40 per cent of the world's official gold reserves, might seek to reduce their gold holdings before the implementation of legislation for a new European central bank that could require each European Community member to deposit a proportion of its reserves with that institution. The main factors that have kept the price of gold down over the last year or so were the substantial liquidation of gold stocks by the former Union of Soviet Socialist Republics (USSR) (amount: 100 metric tons), Iraq (amount: 50-70 metric tons), the Belgian Central Bank (amount: 202 metric tons) and the Dutch Central Bank (amount: 400 metric tons). 13/ When measured against world mine production of 2,156 tons, these amounts, which the market has been able to absorb, are obviously significant.

16. The incipient recovery in the economy of the United States of America and any ensuing moderate or strong international economic growth should have a beneficial impact on the price of gold through a rising demand for gold jewellery. A rise in the price of metals and other commodities usually follows a rise in industrial production by about six months. In recent history gold has been a harbinger of rising and falling commodity prices. For instance, the United States Commodity Research Bureau's index bottomed in

mid-1986, with the price of gold having reached a low one year earlier. Similarly, in mid-1988 the Commodity Research Bureau's index peaked and again gold had reached a cyclical high in late 1987. Prospects of higher inflation under a scenario of strong world economic growth would involve an upward spiralling of the price of commodities, although rises in the price of gold do not necessarily always depend on high rates of inflation. For instance, from January 1986 to December 1987, the price of gold rose from $320 per ounce to a high of $500 per ounce, while inflation in the United States ran at an annual rate of 2.8 per cent.

D. Recent involvement of transnational corporations

17. According to various sources including data compiled by the United Nations, South Africa has enjoyed a renewal of foreign investments since President F. W. de Klerk embarked on a project of reforms in late 1989. One observer, for instance, identified a total of 51 new investments made in South Africa since late 1989, with the 20 to which an exact size could be ascribed having a cumulative value of just over $700 million. 14/ A heavy concentration of those 51 investments occurred in relatively few sectors. The most important has been the motor sector, accounting for 27.5 per cent of new investments in the last three years. Significant new investments have also taken place in the beverages sector (19.6 per cent), electronics (15.7 per cent), chemicals and oils (11.8 per cent) and engineering (11.8 per cent). All of these sectors where recent investments have been made are highly integrated vertically, knowledge- and communication-intensive, and quality-dependent; such features characterize those sectors connected with the majority of international cross-border investments. The balance of investments were in construction (5.9 per cent), pharmaceuticals (3.9 per cent), paper and packaging (2.0 per cent) and steel and allied industries (2.0 per cent).

18. Another observer, in the most recent survey of the Investor Responsibility Research Centre published in 1992, identified a total of 508 non-American transnational corporations having direct investment or employees in South Africa, compared with the 454 corporations reported in its 1991 survey. 15/ Of those 508, 153 were based in the United Kingdom of Great Britain and Northern Ireland and 142 in Germany. Firms based in the United States numbered 111. According to that observer, 303 non-American transnational corporations had non-equity links (representing a net increase of 132 from the year before), and 256 American transnational corporations had non-equity links (compared with 232 the year before).

19. However, since February 1992, the prevailing atmosphere of political uncertainty has made foreign investors cautious, and little flow of capital has gone into the country. Two cases reported in the press include the acquisition of Jamestone Exploration by International Platinum (Canada) 16/ and the establishment of a subsidiary by Guinness (United Kingdom) to expand its distribution network. 17/ Some other recent investments reported in the press by firms based in Germany include the acquisition by Chemetall (a

subsidiary of Dynamit Nobel Aktiengesellschaft (AG) (a joint-stock company), the chemical subsidiary of Metallgesellschaft (AG) of the entire share capital of the privately owned South African firm Chemical Consultants and Services; the acquisition by Shahlgruber Otto Gruber of Rema Tip Top Industrial, its South African industrial rubber manufacturing licensee; and the 60 per cent stake of the Hoechst in Noristan Holdings. 18/ Two transnational automotive manufacturers based in Germany, namely, Mercedes-Benz and Bayerische Motoren Werke AG (BMW), have been planning capital expenditure programmes of 500 million rand and 300 million rand, respectively. 19/ Compared with European firms, United States firms have been slower in returning to South Africa because of more than 60 State, county and city selective contracting laws that penalize firms awarding contracts in South Africa. Moreover, a few major deals that were on the verge of being announced after June 1992 by United States firms have now been put on hold in view of the high degree of political uncertainty that has been heightened by the recent outbreak of violence; the companies most often mentioned in the press include Apple, Heinz, Pepsi-Cola and Sara Lee. 20/ Obviously, these companies are looking to South Africa's long-term potential and the high degree of profitability of the South African market; in 1991, United States investment amounting to $900 million yielded profits of $126 million. 21/

20. Transnational corporations attempting to get an early foothold in South Africa consider not only its vast potential as a market for consumer goods and health and education equipment but also its potential as an export platform into the region and as a supplier of capital goods and expertise to regional projects. Although only 6-7 per cent of South Africa's total exports are destined for Africa, 20-30 per cent of finished goods are exported to the continent. 22/ The main African export markets are Botswana, Lesotho and Swaziland, which are part of a customs union with South Africa, Zimbabwe, Zambia and Mozambique. Continued growth in the exports of South Africa is partly attributable to the success of the General Export Incentive Scheme (GEIS), introduced in April 1990, which has been offering more generous subsidies as products move up the value scale.

21. Envisioning an increased European transnational corporation presence in South Africa, several South African banks have set up or purchased banks in London. Investec Bank has bought Allied Trust Bank in London for $43 million. Standard Bank has set up a significant subsidiary in London and purchased the offshore interests of the United Kingdom merchant bank Brown Shipley. Most recently, the First National Bank, one of the republic's largest banks has agreed to pay around $83 million for the United Kingdom merchant bank Henry Ansbacher. 23/ These acquisitions mark the beginning of the republic's attempts to re-establish itself in Europe with a view not only to earning hard currency but also to attracting investment into South Africa, as the banks have found it difficult to service their transnational clients satisfactorily without a European presence.

22. Indeed, over the past year there were about 10 large, officially funded trade missions from the United Kingdom to South Africa. To these can be added visits by a number of high-level officials from Germany, including the

Minister of Economic Affairs, the agricultural, economic and transport committees of the Bundestag (lower house of the German Parliament), various deputy ministries and other politicians. In April 1992, a mission led by Derek Keyes (who at the time was South Africa's Minister of Trade and Industry and Economic Coordination) to China, Japan, India and Taiwan Province of China, had as its objective the revival of trade and other financial links with the region of the world represented by those countries. In particular, the delegation was keen to rebuild trade with Japan and to encourage Japanese investment in South Africa, particularly joint ventures. 24/ In November 1992 under a series of advertisements entitled "The Challenge of the New South Africa", various industry leaders were interviewed in the Financial Times in an effort to attract foreign investors.

II. ECONOMIC POLICY MEASURES THAT WOULD ENCOURAGE LONG-TERM INWARD FOREIGN INVESTMENTS BY TRANSNATIONAL CORPORATIONS

23. The review of South Africa's economy in section I above depicts a country urgently in need of foreign capital, especially capital that would be channelled into labour-intensive industries so as to take advantage of South Africa's vast labour supply. The question what policy measures the Government has at its disposal to attract more foreign investments then arises. The present section examines a few such measures.

24. The recent favourable balance-of-payments developments that have allowed the Government to pursue a relatively stable real exchange rate for the rand have now set the economy on an anti-inflationary course. This has also been reflected in the recent interest rate reductions pursued by the Reserve Bank, which would set the economy on a path of future growth situated at a level higher than that pursued over recent years. The Government, therefore, should now be less constrained by the goal of achieving financial stability and the containment of inflation as a policy priority. It would now seem for the near-term future that, once the mass unemployed become enfranchised, unemployment, will be the highest priority. A power-sharing interim Government will be under great pressure to tackle the problem of mass unemployment, which will put an enormous burden on monetary and fiscal policy. Given the magnitude of the numbers of unemployed, the issue arises of what measures are available to the Government in terms of policy instruments that can be mobilized effectively in an effort to create an environment more conducive to attracting foreign investments, particularly those that would alleviate the problem of unemployment.

A. Instituting a single exchange rate system

25. One policy measure available to the Government would be to abolish the dual exchange rate system, namely the financial rand. At present, when a non-resident sells a South African asset, financial rand are created that can then be bought by other non-residents for use in their own South African investments. Therefore, all divestment by non-resident transnational

corporations is automatically met by new investment and the price of the financial rand can and does vary independently of that of the commercial rand. Financial rand invariably trade at a discount vis-à-vis commercial rand but the size of the discount depends on South Africa's relative attraction to other investment destinations. The discount of the financial rand vis-à-vis the commercial rand eased from an average of 53 per cent in 1986 to 13.5 per cent in 1991. It widened briefly to 33 per cent in February 1992 owing to apprehensions about taxation on foreign investments, and to 40 per cent in November 1992 owing to the continued negative political sentiment and the increased pace of investments abroad by South African firms. 25/ In an attempt to curb disinvestments by local companies that had put South Africa's investment currency, the financial rand, under severe pressure at the end of 1992, Derek Keyes, the Minister of Finance, announced on 1 December 1992 that South African companies wishing to invest abroad would have to finance their investments by raising loans overseas rather than by using the financial rand, unless the investment was of immediate benefit to the country. 26/ That such a measure could be regarded as a transitional one within the framework of the Government's broader thinking on the subject of relaxing foreign exchange controls was indicated by its policy statement in March 1992 that it would start intervening in the financial rand market, partly to stabilize the currency, and that this should lead to a gradual narrowing of the discount. Given foreign exchange reserves available to the Reserve Bank sufficient to narrow the discount to minimal levels, the abolition of the financial rand would be hastened, and this was an objective that the Government would aim for in the context of a broader policy of normalizing financial relationships with the rest of the world. A recent statement by the Reserve Bank Governor, constituting another policy pronouncement by the Government along the same lines, indicated that "the exchange rate cannot be allowed to depreciate in isolation, but as part of a broadly based economic and tariff-reform package ... Once tariffs come down, surcharges are dropped and exchange controls are scrapped, the rand will automatically drift to lower levels, based on the state of the economy. We will not try to stop this because our policy is more focused on controlling the money supply than in protecting the rand". 27/

26. The immediate effect of the abolition of the dual exchange rate system would be a lower commercial rand. A lower rand would increase exports by making them more price-competitive abroad. That exporters would receive an immediate export boon is demonstrated by statistics on South Africa's exports in the second half of the 1980s. Despite trade sanctions having been in place between 1984 and 1990, a fall in the value of the rand from about US 90 cents in 1984 to US 36 cents at the end of 1985 (a level which was maintained for most of the subsequent years) induced a rise in the value of merchandise exports amounting to an average annual rate of increase of 22.5 per cent. The undesired effect was of course a higher inflation rate, which reached 20.7 per cent in January 1986. However, that inflationary shock, followed by a rigorous monetary policy applied since October 1989, is in the process of being subdued, and this should allow the authorities more leeway in instituting a phasing out of the dual exchange rate system. It should also be noted that the abolition of the dual exchange rate system would remove

important distortions in the economy, including artificially high levels of liquidity and a level of concentration of control that has contributed to oligopolistic distribution distortions, that have had inflationary repercussions in the longer run. The abolition of the dual exchange rate would also encourage inward investments by transnational corporations. At present, the dual exchange rate system acts as a signal to potential foreign investors that the country represents high risk in the long term.

B. Privatization of industry

27. Another policy measure available to the Government is privatization. Privatization was already thought of by the Government in 1990. However, owing to ANC pressure and union protests at that time, the Government abandoned its privatization plans and focused its efforts on commercialization, which was devised as a halfway measure of running state enterprises along business lines. The policy of commercialization was intended to reduce or eliminate the Government's financial commitment to parastatals. Since then a number of entities have been commercialized including Telkom, the Post Office, TRANSNET (a transport services parent company) and the Armaments Corporation of South Africa (ARMSCOR), which are now reported to have become more financially accountable, efficient and competitive, and less unprofitable, than they were. 28/ The Government also plans to commercialize all of the nine state airports by 1 April 1993, so that the airports will be able to charge market rates for their services and premises; they will also be able to raise loans and retain their earnings. 29/

28. Moreover, the Government has privatized a few entities including the South African Oil, Coal and Gas Corporation (SASOL), the Iron and Steel Corporation (ISCOR) and National Sorghum Breweries. The privatization of National Sorghum Breweries in 1991 proved to be a model for raising capital and redistributing wealth among the shareholders who are mostly workers, and black entrepreneurs, and the company is reported to be more profitable than ever. Despite ANC opposition, the Government seems resolved to go ahead with the full privatization of the Abattoir Corporation (ABACOR). 30/

29. Privatization as a policy measure can create wealth, and result in a higher level of investment, managerial innovation and better pricing of services. Privatization improved domestic welfare in 10 of 12 cases analysed by the World Bank in Chile, Mexico, Malaysia and the United Kingdom. 31/ Productivity went up in 8 of the 12, and did not decline in the other 4. Expanded investment and diversification of production resulted in fast growth in many of the firms: for example, the Chilean telephone company doubled its capacity in the five years after the sale. Consumers were better off as a result of, or unaffected by, the privatizations in 9 cases; they lost slightly in 2 cases, significantly in only 1. Buyers of the firms made money, but the other stakeholders - labour, consumers and government - also gained. Labour as a whole was not made worse off: in 9 of the 12 cases analysed in detail, workers benefited.

30. Other, non-World Bank studies show that privatized companies experience faster growth and greater cost containment. Forty-one firms fully or partially privatized by public offerings in 15 countries (most of them industrialized, but including Chile, Jamaica, Mexico and Singapore) increased returns on sales, assets and equity, improved internal efficiency by better utilization of physical and human resources, improved their capital structure and became less leveraged, increased capital expenditures, and increased their workforce slightly owing to higher investments. 32/

31. The fact that privatization has in some cases been accompanied by lay-offs is, in the context of South Africa's current economic situation, of paramount importance; however, if such a policy measure is undertaken in the context of a broad economic restructuring programme that fosters the advancement of other labour-intensive sectors, a more competitive overall economic environment can be fostered. Such an environment can be a positive factor with respect to attracting investment in the country by transnational corporations, following the resolution of the political situation.

C. Economic restructuring

32. Another policy measure available to the authorities is to restructure the economy so that it relies less on its traditional exports of gold and other minerals, with more emphasis placed on a broader manufacturing basis. However, this option is a long-term one. For the medium-term future South Africa has another option, one of building on the advantages of operating in this country, while utilizing its abundant natural resources, abundant labour and established infrastructure by focusing on projects aimed at beneficiating South Africa's other mineral wealth. Transnational corporations can get involved in establishing such projects. Mining, in particular gold mining, is the most important sector in the economy. While the value of gold as a percentage of merchandise export earnings declined from a traditional 40 to 32 per cent in 1991, the production of other minerals has been on the increase (see table 2).

33. There are indications of renewed interest from the major mining corporations in some beneficiation projects. 33/ It should not be surprising that such an interest comes at the time of a rather protracted slump in the prices of commodities including gold, since South Africa's average production cost of US$ 294 per ounce in 1991 (despite a 14 per cent decrease on the 1990 figure), compared with average world production costs of US$ 259 per ounce, places it among the highest cost producers in the world. 34/ The last boom in the development of projects adding value to South Africa's raw minerals took place in the 1960s and early 1970s when the price of gold was low and profit margins in the industry were slim. It was during this period that many corporations in the metals and minerals sectors (including Alusaf, Highveld Steel and Vanadium, Middelburg Steel, Tubatse and Union Carbide) began such operations.

Table 2. South Africa's main mineral output

	Gross value a/ (millions of rand)		Volume (thousands of tons, unless otherwise indicated)	
	1986	1991	1986	1991
Gold	17 287	19 296	638	598
Diamonds (thousands of carats)	998	b/	10 228	8 446
Iron ore	473	1 149	24 482	28 952
Copper	550	1 053	184	185
Manganese	273	774	3 719	3 191
Lime and limestone	237	478	c/	c/
Asbestos	99	140	139	149
Platinum group metals	c/	2 675	c/	63
Other d/	3 927	5 136	c/	c/
Total	23 844	30 701		

Source: Economist Intelligence Unit, South Africa: Country Profile, 1992-1993, pp. 29-30.

a/ Excluding coal (see energy).

b/ No longer separately published.

c/ Data unavailable.

d/ Comprising mainly platinum group metals (until 1989) and uranium, for which separate data are not published; including diamonds in 1988-1991.

34. At present, the resurgence of interest in beneficiation projects is evident in the initiation of two very large expansion projects - in stainless steel (the Columbus project) and in aluminium (the Alusaf project) - costing a total of about 9 billion rand. Aside from increasing South Africa's capacity in the production and export of the two materials, these projects would also provide the essential foundation for large-scale manufacturing industries involved in the beneficiation of those materials further downstream. This would create a favourable environment for investment in the country by transnational corporations.

35. The 3.5 billion rand Columbus expansion project will increase the output of stainless steel by 395,000 tons per year, resulting in a total annual production of 515,000 tons. The project is a joint venture between Anglo American, Gencor and the Industrial Development Corporation (IDC) which will be equal (one-third equity) partners.

36. At present Alusaf produces about 170,000 tons of aluminium per year (0.9 per cent of world production) and the proposed 6 billion rand expansion will increase production to 636,000 tons per year (3.6 per cent of world production), of which about 500,000 tons will be slated for exports. 35/ After the expansion South Africa will rank fifth in world aluminium production. Annual world demand for aluminium, according to an estimate by Sumitomo (Japan), is expected to outpace supply by 1.23 million tons by 1995. The project is scheduled to generate an annual turnover of around 2 billion rand, and net foreign exchange earnings of about 1.4 billion rand. It would take approximately three years to bring the smelter, which is to be built using technology supplied by Pechiney of France, into production. 36/ Alusuisse holds a 15 per cent share in Alusaf. Although the capital-intensive nature of the project would require the creation of only 1,400 new jobs for the new plant, it is estimated that up to 30,000 new jobs could be created in the economy as a whole because of the project's economic multiplier effects. The project itself will produce primary aluminium but the company envisages expanding upstream into alumina and bauxite and downstream into rolled, extruded and fabricated products. 37/ This will necessarily require offshore investments because there are no bauxite deposits of note in South Africa. The project's objective is to initially manufacture semi-detached houses but there is scope to negotiate the manufacture of aluminium engine blocks or wheels on a very large scale for a number of transnational motor car manufacturers. Alusaf has already obtained favourable long-term contracts with Alcoa, the world's lowest-cost alumina producer, and Billiton, a subsidiary of the Royal Dutch Shell group, for the supply of alumina (900,000 tons a year) required. 38/

37. Expansion projects in the production of titanium is another area where a number of would-be producers see considerable potential for South Africa becoming a far larger supplier and moving downstream into beneficiation. Through its sole existing titanium mine, Richards Bay Minerals, South Africa produces about 23 per cent of the world's titanium feedstocks; however, the country produces a mere 1 per cent of the world's titanium pigments.

38. Following its recent 1.4 billion rand expansion, Richards Bay Minerals is now the world's largest producer of titanium feedstocks by far. Anglo American is reported to have shown an interest in developing, in the north-western cape, a heavy mineral sands projects that would produce 106,000 tons of titania slag output by 1996, with a second furnace (to be put in production by 2002) that would increase output to 212,000 tons and in addition produce 130,000 tons of pig iron. Other by-products of the mine would be 120,000 tons of zircon and 34,000 tons of rutile. The mine would employ 500 workers in 1994 and 760 by 2002.

39. Three other heavy mineral sands projects are being proposed - two by Rho-Ex (one of the two is situated in northern Natal and the company has formed a joint venture with Shell South Africa (SA), which bought a 60 per cent share in the project). The third project is being proposed by Severin Mining (Sermin) and involves sand deposits located in northern Natal, but no other information has been released on this project.

40. Another recent project is the new Vantech vanadium plant which was set up through the acquisition for 17 million rand of the Rand Mines failed Vansa vanadium plant in eastern Transvaal. The plant was started up in May 1992 with a planned output of 3,000 tons of vanadium pentoxide per year. At present the plant is being modified for the purpose of producing ferrosilicon and was due to start production in January 1993. Planned production is 55,000 tons of 75 per cent ferrosilicon per year.

41. Two projects for the production of platinum are also being planned. One is the Johannesburg Chamber of Industries' (JCI) Potgietersrust Platinum (PP Rust), which is scheduled to start mining in mid-1993 at a production rate of 200,000 tons of ore per month. This is scheduled to increase to 300,000 tons per month after nine years. At the initial production capacity, 170,000 ounces of platinum, 165,000 ounces of palladium, 13,000 ounces of gold, 4,500 tons of nickel and 2,500 tons of copper will be produced annually. The other plant is Gold Fields Northam Platinum which at full output will produce 250,000 ounces of platinum annually. The mine will be the first to operate solely on hydropower. A precious metals refinery is to be added to the mine within five years.

D. Regulatory framework 39/

42. The concerns of prospective foreign investors, in addition to focusing on a climate of political stability and macroeconomic balance, usually relate to the regulatory environment, particularly the tax regime as well as the repatriation of dividends.

43. South Africa's regulatory environment is a rather favourable one with respect to attracting foreign investments. The business and industrial community is not overregulated by international standards and regulatory provisions generally apply to both local and foreign-owned companies. Imports are subject both to a quantitative control and to the provisions of a tariff protection system. Export licences are required only for strategic goods, some foodstuffs and items in a few other categories, but exchange control approval is necessary if payment is to be made in any foreign currencies.

44. According to a 1992 report compiled by South Africa's Industrial Development Corporation and released as an official Department of Trade and Industry publication, further liberalization of South Africa's regulatory environment is to be expected. Such liberalization would include cutting tariffs, abolishing import surcharges, lowering corporate taxes, abolishing the General Export Incentive Scheme, eliminating tariffs on goods not made locally, signing of agreements connected with the General Agreement on Tariffs and Trade (GATT) Anti-dumping Code, revamping the Southern African Customs

Union and procuring South Africa's reclassification as a developing country for the purpose of its gaining more favourable trade terms. The combined effect of these measures would be favourable to the attracting of foreign capital. 40/

45. South Africa's financial system is well developed and tightly controlled and there is a well-developed insurance and pension fund industry. Licences for new banking and insurance companies are unlikely to be granted and foreign investors are unlikely to be granted major interest in banking and the insurance businesses. Aside from restrictions on the foreign ownership of banking and insurance there are no other restrictions on foreign ownership.

46. The Government promotes and encourages foreign investment, and there is an emphasis on establishing new industry in labour-surplus areas. The Government prefers foreign entrepreneurs to start new ventures in partnership with South African residents and relaxes the restrictions on local borrowings accordingly. Foreign investors can carry on business by licensing, direct trading by importation, proprietorship, partnerships, and the setting up of branches of overseas companies. The Government prefers the registration of local subsidiaries. The Reserve Bank has a strong preference for foreign-owned investments' being financed in the form of shares.

47. Exchange control permission is required for the inward transfer of equity share capital in financial rand. Foreign investments through other means (as for example the acquisition by a foreign company of a local one by means of an exchange of shares) would require prior approval, which would be granted only in exceptional circumstances. There is no restriction on the repatriation of capital investments in financial rand and profits earned since 1 January 1984 by foreign investors are freely transferable to the investor's country of domicile, but restrictions can be imposed if a remittance would result in increased local borrowing by a foreign-controlled enterprise.

48. Incentives are equally available to domestic and foreign investors. Non-tax incentives are largely available through the Industrial Development Corporation and regional development corporations. Regional incentives are in the form of loans; rent, wage, equipment and utility subsidies; and price preferences. Export incentives include insurance, compensation schemes, and development and transportation concessions.

49. Although tax incentives are generally being phased out, they can be very important in attracting foreign investments. Citing a need to remove any disincentives to companies investing in South Africa, Derek Keyes, Minister of Finance, announced in June 1992 that all interest on foreign investment would currently be exempt from taxes. 41/

50. The importance of a favourable tax regime cannot be overstated. In the case of the above-mentioned Columbus expansion project, the partners in Columbus-Highveld Steel and Vanadium (Hiveld) and Samancor had lobbied the Government for accelerated tax allowances on beneficiation projects, which were finally introduced in 1991 under section 37E of the Income Tax Act. 42/

Through the section 37E allowances, the tax benefits received by a company upon the depreciation of machinery, plant and buildings are speeded up. A company investing in a beneficiation project can deduct those allowances and other pre-production expenses in the year in which they are incurred. Previously, a company could effectively claim such benefits only when it had generated sufficient profits against which the allowances might be offset. That often meant that the company would operate for several years during which time a sizeable tax loss was built up but could not be utilized, while inflation reduced the value of the tax allowances. Now, under section 37E, if the company claiming the deductions does not have enough of a tax base against which to offset the allowances, it can trade the tax loss to another tax-paying company for a cash payment and as a result receive immediate benefit. Tax allowances of such a nature are important for big investment or expansion projects because of the enormous amounts of capital expenditure involved and the long lead-time (several years) elapsing before enough profits are made to permit the accumulated tax losses to be claimed. The institution of more favourable tax incentives of such a nature would encourage the inflow of foreign capital.

III. CONCLUSIONS

51. The analysis presented in the present report depicts a country faced not only with an urgent need for cyclical recovery, but also with the need for some structural readjustments to bring the economy back onto a path of sustainable higher-level growth and provide employment for the masses of unemployed. The low, and at present even negative, economic growth, is aggravating the already serious unemployment situation, increasing poverty and reducing the average standard of living; however, some degree of macroeconomic balance, which is an important factor in attracting foreign investors, has been achieved.

52. The South African Government does not lack for economic policy measures at its disposal. This report discussed a few policy measures that may be utilized by the Government in its search for a solution to the problems facing the country. All measures would encourage the inflow of foreign investments by transnational corporations. A particular measure can be mobilized independently or in combination with any other measure, or the Government may embark on a course that mobilizes all such measures. The measures vary in terms of their immediate or long-run impact. There are indications of some initiatives taken with regard to most of those measures.

Notes

1/ Unless otherwise indicated, data were drawn from South African Reserve Bank, Quarterly Bulletin, various issues.

Notes (continued)

2/ In previous reports to the Commission on Transnational Corporations, the Transnational Corporations and Management Division of the Department of Economic and Social Development of the United Nations Secretariat has dealt extensively with the issue of the impact of sanctions on the South African economy.

3/ "South Africa violence wounds economy", The Wall Street Journal, 30 September 1992, p. A.10.

4/ The unknown factor is how many full- and part-time jobs there are in the informal sector and how many unrecorded jobs in the formal sector.

5/ Presentation by Bob Tucker to the Follow-up Conference on International Educational Assistance to Disadvantaged South Africans, held at United Nations Headquarters, New York, 8 and 9 September 1992.

6/ Ibid.

7/ M3 comprises coins and bank notes, cheques and transmission deposits, other demand deposits, other short-term and medium-term deposits, and long-term deposits.

8/ "South African interest rates cut", Financial Times, 18 November 1992.

9/ "Gold group warns low price may force closures", Financial Times, August 1992.

10/ "London bullion market", Financial Times survey, Financial Times, 22 June 1992.

11/ Financial Mail, 22 May 1992.

12/ "London bullion market" ....

13/ "Commodities corner", Barron's, 20 July 1992; and "400 tonnes of gold reserves sold by Dutch Central Bank", Financial Times, 13 January 1993.

14/ Centre for the Study of the South African Economy and International Finance, London School of Economics, Summary of findings of a study undertaken by Jonathan Garner (facsimile transmission).

15/ Investor Responsibility Research Centre, International Business in South Africa 1992, Washington, D.C.

16/ "Canadian company acquires South African platinum prospect", Financial Times, 22 April 1992.

Notes (continued)

17/ "Guinness expands in South Africa", Financial Times, 14 May 1992.

18/ "The Germans are coming", Financial Mail, 23 October 1992.

19/ Financial Times survey, South Africa, Financial Times, 5 June 1992.

20/ Ibid.

21/ Ibid.

22/ "Little sign of a sanctions dividend", Financial Times, 14 July 1992.

23/ Centre for the study of the South African Economy and International Finance, London School of Economics, Summary of findings of a study undertaken by Jonathan Garner.

24/ "Pretoria seeks to revive trade with Asia", Financial Times, 24 April 1992.

25/ "South African investment up - but so are the outflows", Financial Times, 26 November 1992.

26/ "Pretoria acts on exchange control curbs", Financial Times, 1 December 1992.

27/ "A blueprint with a difference", Financial Mail, 16 October 1992.

28/ "Back on the path to privatization", Financial Mail, 28 August 1992, p. 75.

29/ Financial Mail, 9 October 1992.

30/ Financial Mail, 28 August 1992, p. 75. Some flexibility in the opposition of ANC was shown in a draft economic policy document released in April 1992, which mentioned for the first time the possibility of reducing the role of the public sector through privatization. See "ANC sets moderate tone", Financial Times, 29 April 1992.

31/ World Bank, Privatization: The Lessons of Experience, Country Economics Department, April 1992.

32/ Ibid.

33/ The names of projects listed were drawn from Financial Mail survey: MINING, Financial Mail, 14 August 1992.

34/ Financial Mail, 22 May 1992, p. 104.

Notes (continued)

35/ "Go-ahead expected for South African aluminium project", Financial Times, 12 November 1992.

36/ "South African smelter decision delayed", Financial Times, 21 August 1992.

37/ "Alusaf swims against the tide", Financial Times, 13 November 1992.

38/ Ibid.

39/ A part of the analysis presented draws on Price Waterhouse information guide, Doing Business in South Africa, 1990.

40/ "A blueprint for industrial policy", Financial Mail, 16 October 1992.

41/ "Tax exemption in South Africa", The Wall Street Journal, 5 June 1992.

42/ The analysis draws on Financial Mail survey: MINING, Financial Mail, 14 August 1992, p. 4.